

CANADA

Two totally opposite news stories: strong job creation, and significant deterioration in the trade balance

HIGHLIGHTS

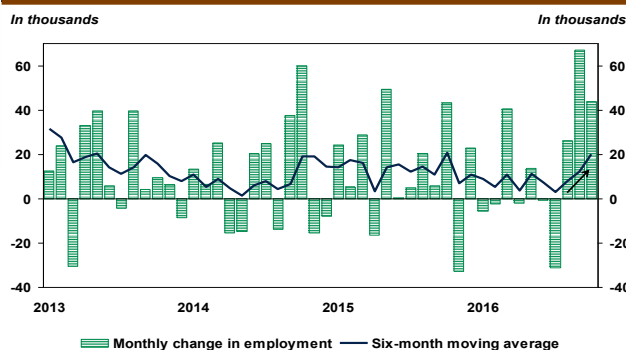
- The **job market** saw the creation of 43,900 new jobs in October, whereas most forecasters were expecting a pullback. In the past three months, a cumulative gain of 137,300 jobs has been recorded—this is enormous.
- The unemployment rate was flat, at 7.0%.
- The balance of **international merchandise trade** deteriorated significantly in September, falling from -\$1.99B to -\$4.08B.
- This wider trade deficit is due to a larger increase in imports (+4.7%) than in exports (+0.1%).

COMMENTS

The **job growth** recorded in October is astonishing, especially coming on top of the big increases of recent months. This paints quite a positive picture of the Canadian economy. We should be cautious, though; given the volatility of these data, the risk of a pullback between now and the end of the year is fairly high.

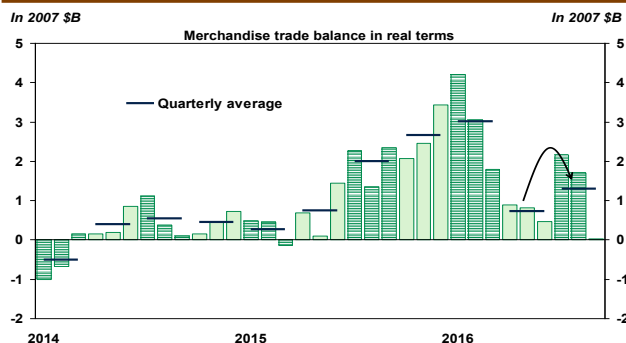
As far as the deteriorating **trade balance** is concerned, the spike in imports is largely due to the delivery of a module shipped from South Korea for the Hebron oil platform in Newfoundland and Labrador. Things should return to normal in October, with a decline in imports and significant improvement in the trade balance. Furthermore, the impact on third-quarter economic growth should be fairly limited. The negative contribution to real GDP from the surge in imports should be offset by greater business investment in machinery and equipment (due to the purchase of the module for the oil platform). But putting that volatility aside, the 0.7% slump in exports expressed in real terms that was observed in September is a subject of concern. It casts doubt on the strength of exports in the months to come, and adds weight to the Bank of Canada's recent concerns about the vitality of international trade.

The employment trend is starting to improve, with significant gains in recent months



Sources: Statistics Canada and Desjardins, Economic Studies

The goods trade balance rose in the 3rd quarter of 2016 despite the September downturn



Sources: Statistique Canada and Desjardins, Economic Studies

Implications: For the Bank of Canada and its monetary policy, this morning's data are sharply different. The healthy job growth of recent months is offset by concerns about the vitality of exports. For now, the status quo is still the order of the day as far as key interest rates are concerned.

Benoit P. Durocher
Senior Economist

François Dupuis
Vice-President and Chief Economist

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com