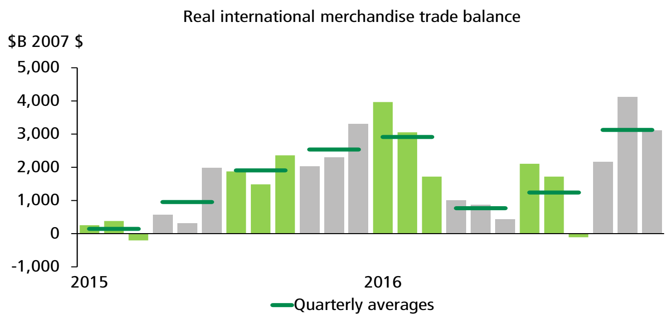
ECONOMIC NEWS

Canada: Imports plunge in Q4

HIGHLIGHTS

- The value of merchandise exports increased 0.8% in December, following November's 5.1% gain.
- The bulk of December's advance stems from energy products, which benefited from a substantial rise by prices. When energy products are excluded, exports are down 2.1% instead, with many sectors suffering a backlash from November's surge.
- The value of merchandise imports rose faster than that of exports, at 1.0%.
- The international merchandise trade balance eroded slightly in December, going from \$1.0B to \$0.9B.

GRAPH
The trade balance improved substantially in fall 2016



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Now that we have December's figures, we can take stock of international merchandise trade for all of the fourth quarter. In real terms, exports are up 2.9% (quarterly annualized), largely due to a 30.4% advance by energy products. In contrast, the other sectors pulled back 4.3% for the quarter. Imports, for their part, recorded a 15.3% pullback in the fourth quarter. This sizable drop prompted a big improvement to the trade balance, which went from \$3.7B in 2007 \$ in the third quarter to \$9.4B in 2007 \$ in the fourth quarter.

Under these conditions, we can expect international trade's contribution to Q4's economic growth to be heavily positive, probably around 4.5%. However, the decline in imports signals a major decrease in non-residential investment. Note that these somewhat extreme results are actually a return to the normal situation following the big third-quarter spike triggered when a module from South Korea was imported for the Hebron oil project in Newfoundland and Labrador. The positive contribution from international trade should therefore largely be offset by a negative contribution from non-residential investment. Fourth-quarter GDP growth should therefore, all in all, be moderate, at just under 2%.

IMPLICATIONS

Beyond the temporary disruptions affecting the distribution of economic growth among the various components of real GDP, the results for merchandise trade attest to some fragility in the Canadian economy. Among other things, it is worrisome to note that non-energy exports continue to struggle, putting the issue of Canadian business's market share losses to the United States at centre stage. There is nothing in these results to reassure the Bank of Canada about the strength of Canada's exports.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.