Canada: Increased Imports Drag the Trade Balance Down

HIGHLIGHTS

- The value of merchandise exports rose 0.6% in December while the value of imports grew 1.5%.
- The trade balance therefore deteriorated over the month, from -$2.7B to -$3.2B.
- For the fourth quarter of 2017 as a whole, the volume of exports was up 2.3% (annualized). However, the volume of imports climbed 7.0% over the quarter, playing a significant role in deteriorating the trade balance. This figure dropped from +$0.6B in 2007 dollars in the third quarter to -$0.8B in 2007 dollars in the fourth quarter.

COMMENTS

December’s result was not only weaker than expected, but the performance for the fourth quarter as a whole was somewhat disappointing. The deterioration of the merchandise trade balance in real terms is an indicator that foreign trade will curb economic growth. According to our estimates, the contribution of the balance of trade in goods and services to the change in real GDP could be around -1.5% in the fourth quarter.

Nevertheless, there is a silver lining to the results in recent months. The sharp rise in the volume of imports for the fourth quarter as a whole suggests that domestic demand was again very strong during the period, particularly in consumer spending and business investment. For example, the volume of imports of industrial machinery, equipment and parts jumped 18.1% (annualized) in the fall, and imports of electrical and electronic equipment and parts surged 27.0%. The volume of imports of consumer goods also posted an increase of 6.8% in the fourth quarter.

IMPLICATIONS

Today’s results give us a clearer picture of the breakdown of economic growth last fall. All in all, our forecasts for real GDP growth in the fourth quarter remain more or less the same at around 2%. As our projection is still below the Canadian economy’s growth potential, it should not call into question Canada’s current process of gradually normalizing its key rates.

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Graph:

The trade balance deteriorated further in the fourth quarter

Sources: Statistics Canada and Desjardins, Economic Studies