

 **CANADA**

Exports finally starting to gain traction

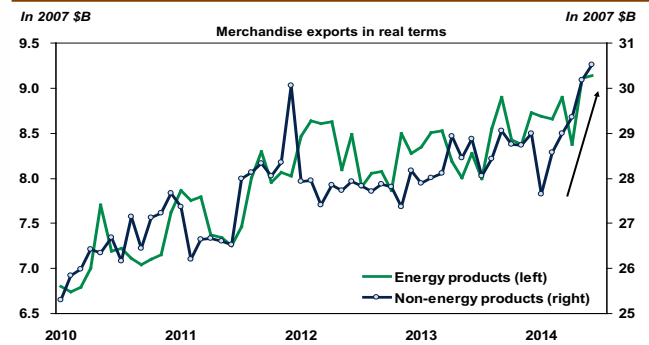
As we have been saying for the past few months now, Canada's economic scenario depends heavily on accelerating exports to offset weaknesses in some components of domestic demand. Until very recently, international trade has posted fairly disappointing results in a context where global demand still has some hesitations.

The winds are in all likelihood starting to change for Canada's exports. The data on international merchandise trade released this morning point to a 0.9% gain in the volume of exports in June. This gain, when added to the gains recorded since the start of 2014, leaves little doubt about the current uptrend in exports. As the first graph illustrates, the increase in merchandise exports is especially strong for non-energy commodities, although energy-based products have also posted upticks lately. The recovery in exports is fairly widespread, with almost every sectors of activity showing significant gains since the end of 2013. Canadian exports are finally riding the wave of improvements in global demand.

In terms of the volume of merchandise imports, a decline was recorded in June. However, the volume has been trending upwards since the start of the year, although the scope is not as strong as for exports. This suggests that domestic demand is healing. Of note, domestic demand declined by 0.3% (quarterly annualized) in the first quarter of 2014.

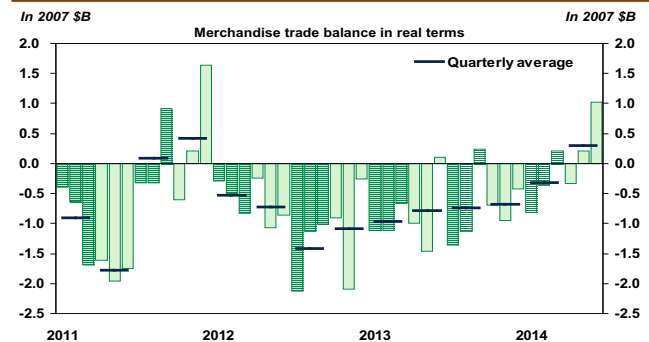
Implications: With export growth expressed in real terms outweighing imports, the merchandise trade balance has improved considerably in recent months. All in all, the merchandise trade balance rebounded from -\$965M in 2007 dollars in Q1 2014 to +\$914M in 2007 dollars in Q2—the first foray into positive territory since the end of 2011. If we also take into account the steady improvements in the balance of trade for services, international trade could make an overall contribution to Canada's real GDP growth of just over 2% in the second quarter. In contrast, inventory

Exports have been on an upswing since the start of 2014



Sources: Statistics Canada and Desjardins, Economic Studies

The balance of trade in goods improved significantly in Q2 2014



Sources: Statistics Canada and Desjardins, Economic Studies

changes are expected to be posted for the quarter, a situation that could slow the economic growth. This observation should reassure the Bank of Canada leaders, who have been waiting for some time for international trade to make a bigger contribution.

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