

Cdn Trade: Deficitland

Canada's trade deficit widened to a record \$2 billion in August from an upwardly revised \$1.3 billion shortfall in the prior month. There was broad-based weakness in both imports and exports. Exports tumbled 5.1%, retracing all of July's gain. Every major category fell, with machinery and equipment and auto-related exports recording the largest declines. Imports pulled back 2.8%, not a big surprise following the 9.4% surge a month earlier. Most categories were weaker here as well, except autos as dealers replenished inventories with vehicles no longer produced in Canada. That drove the autos deficit to a record \$1.5 bln. While the U.S. cash-for-clunkers program should improve the September numbers, the autos deficit looks to be a mainstay on the Canadian trade landscape, a big reversal from the \$2 bln surpluses at the start of the millennium. Export and import volumes told a similar story, down 4.4% and 0.8% respectively and it looks as if trade will subtract heavily from Q3 real GDP.

Canada's trade balance with the U.S. held steady, as all the deterioration came from the rest of the world. Year-to-date, Canada is sporting a \$4 bln deficit, a far cry from the \$39 bln surplus a year ago when energy prices were soaring.

	(year-to-date)				
(C\$ billions)	Aug	Jul	Jun	2009	2008
Total Trade Balance	-2.0	-1.3	0.1	-4.0	39.3
United States	2.2	2.2	3.2	22.5	67.0
Japan	-0.2	0.0	-0.1	-0.3	-0.1
European Union	-0.7	-0.9	-0.9	-4.8	-4.8
Automotive	-1.5	-1.1	-1.0	-7.4	-7.3
Energy	3.6	3.3	3.9	28.9	52.9
(% change)	Aug	Jul	Jun	(y/y)	(ytd/ytd)
Exports	-5.1	4.6	4.5	-31.6	-26.1
United States	-3.2	4.4	7.4	-31.9	-29.0
Automotive	-5.5	26.1	-2.5	-31.6	-36.4
Energy	0.0	-1.0	20.6	-41.3	-42.6
Imports	-2.8	9.4	-0.9	-16.7	-14.8
United States	-3.3	10.8	-1.2	-17.4	-15.5
Automotive	3.8	23.7	1.0	-14.1	-30.7

The Bottom Line: The weakness in trade doesn't bode well for economic activity in August and highlights the dichotomy in the Canadian economy—strong on the services side, weak on the goods side. The strengthening loonie, up 3.2% in August and only appreciating further since, is contributing to the deteriorating trade picture. With a trade deficit in four of the past five months, it's time to get used to it.

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