

Canadian Trade: Back in Black to Start 2010

Canada's merchandise trade surplus widened more than expected to \$800 mln in January (the highest in 10 months), from a revised \$75 mln surplus in the prior month (was a \$246 mln deficit previously). Exports rose 0.5%, lifted largely by a 4.8% surge in industrial goods and materials (mostly base metals), though other commodity-related sectors were modestly higher as well. Auto exports were an area of significant weakness, tumbling 4.1%, as U.S. auto sales fell 4.2% in the month (they were down again in February, hinting at another decline in auto exports). A 1.7% drop in imports made a hefty contribution to the solid surplus, with nearly all categories declining. Machinery and equipment imports fell for a second straight month, as it appears Canadian businesses are still reluctant to import productivity-enhancing machinery despite the strong Canadian dollar. A steep 5.6% decline in energy imports also weighed heavily. Volumes told a similar story, with real imports diving 2.3%, while real exports fell 0.6%, pointing to a potential boost to Q1 real GDP growth.

In a separate release, new home prices rose 0.4% in January, pushing prices 0.1% above year-ago levels, the first increase since December 2008, as the Canadian housing recovery continues.

(C\$ billions)	(year-to-date)				
	Jan	Dec	Nov	2010	2009
Total Trade Balance	0.8	0.1	0.1	0.8	-1.1
United States	4.1	4.2	3.5	4.1	3.0
Japan	0.1	-0.1	0.0	0.1	-0.2
European Union	-0.3	-0.8	-0.6	-0.3	-0.6
Automotive	-1.5	-1.3	-1.3	-1.5	-1.1
Energy	5.3	5.0	4.8	5.3	3.6
(% change)	Jan	Dec	Nov	(y/y)	(ytd/ytd)
Exports	0.5	3.1	2.4	6.3	6.3
United States	-0.6	5.1	3.4	8.1	8.1
Automotive	-4.1	7.6	-0.9	55.1	55.1
Energy	0.6	9.2	11.9	32.4	32.4
Volumes	-0.6	1.9	0.5	5.0	5.0
Imports	-1.7	3.2	3.2	0.2	0.2
United States	-0.5	2.7	3.8	3.6	3.6
Automotive	-0.3	6.4	10.1	49.2	49.2
Volumes	-2.3	3.0	1.4	7.7	7.7

The Bottom Line: Considering the strength in Canadian domestic demand, January's drop in imports isn't likely to become a trend. Meantime, sluggish U.S. demand and a strong C\$ will keep a lid on export growth. This theme is likely to persist through 2010, as Canada's domestic economy outperforms the U.S., likely keeping the merchandise trade account near balance.

Benjamin Reitzes, 416-359-5628