

# Canada's Current Account: Crimson Tide

Canada's current account deficit widened as expected in Q2 to \$11.0 billion (or \$44.1 bln annualized) from a revised \$8.5 billion (\$33.8 bln a.r.) gap in the prior quarter (first pegged at \$7.8 bln). The swing in merchandise trade back to a deficit accounted for almost the entire quarterly deterioration, but it was actually revised to a somewhat smaller shortfall than the initial monthly estimates (\$5.1 bln a.r. versus \$6.4 bln). Meanwhile, the non-merchandise components were all about as expected. The services deficit widened on the largest travel shortfall on record (reported Friday), while the investment income shortfall narrowed significantly, and net transfers widened.

The overall current account gap represents about 2.7% of GDP (we'll know the tally for certain tomorrow when we get the GDP numbers for the quarter). That's up from 2.1% in Q1, but quite similar to 2009's result of 2.8% (or \$43.5 bln). Putting that in perspective, the U.S. current account deficit for all of last year was \$378 billion (also 2.7% of GDP), but likely widened to around 3.5% of GDP in Q2 (data due September 16). In other words, one of Canada's twin deficits was actually ever-so-slightly worse than its U.S. counterpart in 2009, but the world is returning to a more normal state of affairs on this front in 2010—i.e. the U.S. has more problematic issues on both the trade and fiscal fronts.

	(\$billions: a.r.)			
	10Q2	10Q1	09Q4	2009
<b>Current Account</b>	-44.1	-33.8	-40.8	-43.5
<b>Merchandise Trade</b>	-5.1	4.7	1.7	-4.6
<b>Non-Merchandise</b>	-38.9	-38.5	-42.6	-39.0
<b>Services</b>	-22.3	-21.1	-23.3	-22.7
<b>Investment Income</b>	-13.8	-17.3	-15.6	-14.1
<b>Transfers</b>	-2.8	-0.2	-3.6	-2.1

**The Bottom Line:** While Canada's current account shortfall is no worse than last year's, the gap is expected to remain above \$40 billion through 2010 and 2011, amid relatively stronger domestic spending in Canada and the competitive weight of a strong Canadian dollar. The deficit on overall trade is certainly manageable, especially given the massive capital inflows into this country, but remains starkly different from the ten-year run of surpluses from 1999-2008.

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