

## Cdn Trade: All's Well That Ends Well?

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Just as the downbeat news on Canada's relative economic performance seemed to be adding up, in comes a massive surprise to the high side on a key element of the outlook: The merchandise trade surplus jumped to its best level since the financial crisis broke wide open, rising to \$2.7 billion in December from an upwardly revised \$1.2 billion in the prior month (first pegged at \$1.1 billion). The report was cluttered with surprisingly good news, as exports surged 4.5%, and all of the gain was due to higher volumes (up 5.1%). No single sector or country drove the advance, with broad-based increases in autos, machinery, industrial goods and resources. There were big gains in sales to the U.S. (up 5.3%), Japan and emerging markets. Not surprisingly, Europe was the weak spot, with sales to that region dropping 4.8% in the month. Meantime, imports nudged up 0.8%, but dipped in volume terms, suggesting that real exports became a major net contributor to growth at the end of 2011.

The big rise in the surplus—to its highest level since that fateful month of October 2008—left Canadian merchandise trade in a small surplus for all of last year (\$1.4 billion, after annual deficits in the two prior years). Total exports pushed above \$42 billion in December, also the highest since the fall of 2008.

(C\$ billions)	Dec	Nov	Oct	(year-to-date)	
				2011	2010
<b>Total Trade Balance</b>	2.7	1.2	-0.6	1.4	-9.0
<b>United States</b>	5.5	4.7	3.5	49.0	36.7
<b>Japan</b>	0.1	0.0	0.0	2.1	-0.4
<b>European Union</b>	0.4	0.2	-0.4	-3.3	-3.9
<b>Automotive</b>	-0.3	-0.4	-0.9	-11.9	-11.9
<b>Energy</b>	6.0	5.5	4.7	58.9	50.3
(% change)	Dec	Nov	Oct	(y/y)	(ytd/ytd)
<b>Exports</b>	4.5	3.4	-1.5	12.5	12.9
<b>United States</b>	5.3	2.1	0.8	14.8	11.3
<b>Automotive</b>	6.7	5.9	4.8	27.4	4.4
<b>Energy</b>	1.7	8.5	0.9	11.9	22.0
<b>Volumes</b>	5.1	1.2	-1.7	6.0	4.7
<b>Imports</b>	0.8	-1.0	2.7	10.9	10.1
<b>United States</b>	2.8	-2.3	3.2	12.2	8.1
<b>Automotive</b>	3.6	-3.2	1.5	9.2	3.7
<b>Volumes</b>	-0.5	-1.1	2.0	3.6	6.6

**The Bottom Line:** The dramatic year-end swing in Canadian trade puts some serious upside risk to our call for Q4 growth (of 1.4%), as net exports are now estimated to have contributed to GDP. Moreover, the strong finish to the year provides a nice hand-off for 2012 growth. It appears that exports are grabbing the growth baton just in time from fading domestic spending.

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