TD Economics

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Data Release: Canada's current account deficit widens in Q4

- Canada's current account deficit expanded by $4.3 billion in Q4 to reach $13.9 billion, following a sharp narrowing in Q3. For the whole of 2014, the current account deficit narrowed by $12.8 billion to reach $43.5 billion, in line with a strengthened goods balance (which expanded by $12.1 billion to reach a surplus of $4.9 billion for the year).
- The expansion in the current account deficit in Q4 mainly reflected the deterioration of trade in goods, which recorded a $2.0 billion deficit – the first deficit since the fourth quarter of 2013. Overall, the total exports of goods declined by $3.4 billion to reach $131.8 billion in the fourth quarter, led by a reduction in energy products. Exports of energy products were down $4.2 billion, largely on lower prices for crude petroleum. Total imports of goods were up $1.5 billion to $133.8 billion in the quarter. Imports of consumer goods advanced $0.7 billion on higher prices, motor vehicles and parts increased $0.6 billion on higher volumes of cars, and metal and non-metallic mineral products rose $0.5 billion. Meanwhile, the deficit on international transactions in services narrowed by $0.1 billion in the fourth quarter to $5.5 billion and the investment income deficit shrank by $0.4 billion to $5.7 billion.
- On a geographical basis, the surplus with the United States was down by $4.2 billion to $8.7 billion in Q4, the lowest surplus since the third quarter of 2010. Exports to the United States were down $2.4 billion, led by weaker sales of crude petroleum. On the other side of the ledger, imports from the United States were up $1.7 billion. The overall deficit with non-US countries increased $0.7 billion on lower exports.
- Foreign investors acquired $0.3 billion of Canadian securities in the fourth quarter, down from the $20.1 billion investment in the previous quarter. Non-residents continued to invest in Canadian debt securities, but at a slower pace, while reducing their holdings of equities. As a result, foreign investment in Canadian securities in the fourth quarter was the lowest in six years. Canadian investors acquired $16.0 billion of foreign securities in the quarter with most of the activity recorded in December. Canadian purchases of foreign debt securities were $9.6 billion, mainly US bonds. Canadian acquisitions of foreign equities amounted to $6.4 billion, the sixth consecutive quarter of investment.

Key Implications

- All in all, there were few surprises to be had in today's balance of international payments release. The weaker trade in goods balance was well known in advance, as international merchandise trade data signaled a significant move in this direction nearly a month ago. And the main culprit, trade in energy products, wasn't a surprise either given the dramatic slide in prices observed in Q4. Trade in services was also expected to come in modestly stronger, helped along by the marked softening of the Loonie in Q4.
- However, the more eye-popping development in today's release was the dramatic reduction in the purchases of Canadian securities by foreign investors in Q4 relative to Q3. While the direction doesn't come as a surprise, given the return on Canadian equities was negative in Q4, it is rather the size of the change and the fact that foreign investment in Canadian securities was the lowest in six years.
- Today's release reinforces our view that trade in goods and services was a drag on real GDP growth in Q4. We expect that it subtracted about 0.4 percentage points from growth, although Q4 real GDP growth is still expected to come in around a modest 2% when it is released tomorrow.

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