TD Economics

May 28, 2015

Data Release: Canada's current account deficit widens in Q1

- Canada’s current account deficit widened to $17.5 billion in the first quarter of 2015 from $13.1 billion (revised from $13.9 billion) in the final quarter of 2014. The Q1 deterioration in Canada’s international trade position was concentrated in the deficit of goods – specifically energy products.
- The balance on international trade for goods recorded a $7.2 billion deficit in Q1 after posting a $2 billion deficit the in fourth quarter of 2014. Exports fell $4.1 billion to $128 billion, reflecting a sharp drop in energy products (-$5.9 billion). A steep decline in crude petroleum prices (-32%) weighed down on energy exports. In fact, in volume terms, energy exports increased (+3.9%) in the first quarter. Imports grew (+$1.1 billion) and were supported by advances in the electronic and electrical equipment and parts ($+1.1 billion) and consumer goods (+$1.0 billion) categories. The deficit on the trade in services narrowed slightly to $5.6 billion while the investment income deficit was reduced to $3.7 billion.
- From a geographical perspective, the goods balance worsened by the same magnitude for both the United States ($6.1 billion surplus) and non-U.S. countries ($13.3 billion deficit). Exports to the United States were down $3.7 billion, led by weaker sales of crude petroleum. Higher imports contributed to the widening of the deficit in non-U.S. countries.
- Foreign portfolio investment in Canadian securities increased by $37.6 billion after rising marginally in the fourth quarter ($0.3 billion). This was mainly due to $41.4 billion increase in foreign holdings of Canadian bonds. The gain in bond holdings largely reflected new issues of Canadian private corporate bonds, though purchases of federal government bonds on the secondary market also contributed to the positive inflows. Non-residents divested $13.3 billion in money market holdings – the largest decline on record. Statistics Canada noted that this sharp withdrawal was against a backdrop of a significant decline in short-term interest rates. Foreign holdings of Canadian equities increased $9.5 billion, following a divestment of $3.5 billion in the fourth quarter.
- Canadian investors sold $5.3 billion of foreign securities in Q1, the first quarterly divestment in more than five years. Canadian holdings of foreign equities declined $4 billion on account of sales of both U.S. and non-U.S. foreign shares. Canadian purchases of foreign debt securities decreased $1.4 billion, reflecting a divestment in non-U.S. foreign bonds. Both outward ($16.5 billion) and inward ($6.7 billion) direct investment slowed in Q1.

Key Implications

- Today's report is in line with international trade data released earlier this month, which highlighted how lower energy prices were weighing on export receipts through the first quarter of 2015. That said, export volumes did rise in Q1, and when combined with the slight downtick in real imports, we expect net exports to be a positive contributor to real GDP growth in Q1 (released tomorrow).
- Looking ahead, we expect to see growth in Canada's export sector to gain speed over the remainder of this year. For one, after a very weak start to the year, U.S. real GDP growth is forecast to average around 3.5% over the second half of 2015, as some transitory factors that have impeded on growth subside. This bodes well from a foreign demand perspective for Canada’s export sector. What's more, we expect the Loonie to move lower as 2015 progresses.

Both these factors should translate to a narrowing in the current account deficit over the second half of this year.

- While the collapse in oil prices stunted foreign interest in Canadian securities in 2014Q4, investor sentiment rebounded in the first quarter of 2015. And, Canadian private corporations clearly capitalized on this demand and low borrowing rates. Indeed, the sharp rise in corporate bond holdings coincided with very strong net new bonds issuance in 2015Q1.

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