



TD Economics

Commentary

March 11, 2008

CANADIAN INTERNATIONAL TRADE REBOUNDS IN JANUARY

- Exports grew 3.6% in January
- Trade balance improves from \$2.3 billion to \$3.3 billion
- Industrial goods and energy products see net gains
- Biggest improvement seen in trade outside of major markets

After a dismal December, Canada's international trade showed improvement on several fronts in January. Exports increased by 3.6% in January, nearly offsetting the 3.8% drop seen in the prior month. Imports rose by 1.0%, showing a slight acceleration over December's gain of 0.7%, and together with the sharp increase in exports helped push Canada's trade balance to \$3.3 billion. These gains were also seen broadly across products and regions. Four of the seven major product categories (Agriculture and Fishing, Energy, Forestry, and Industrial Goods) saw exports expand in the month. Moreover, Canada's trade surplus with the U.S. improved from \$6.0 to \$6.2 billion while Canada's deficit with all other trading partners also improved from -\$3.7 to -\$2.9 billion, in spite of a sharp drop in exports to the European Union.

With sizeable price gains in the month, including a 7.5% m/m gain in petroleum export prices, the real picture was much weaker once these price effects are taken into account. Exports managed to eke out just a 0.3% gain in January which does little to offset the 5.7% drop in December. Even uglier details lurked beneath the surface. Real exports of automotive products fell 14.7% in January, the largest decline in over a decade. Moreover, Canadian automotive exports have fallen 23% over the last three months, the largest decline since the end of the U.S. recession in 1982. And, this is not just a story of the ongoing woes of the Canadian auto industry. Real Canadian exports of other consumer goods have fallen by 13.8%

CANADIAN INTERNATIONAL MERCHANDISE TRADE			
January-08			
	C\$, Blns.	M/M % Chg.	Y/Y % Chg.
TRADE BALANCE (C\$, blns)*	3.26	2.29	--
VOLUME OF EXPORTS	--	0.3	-4.7
VOLUME OF IMPORTS	--	-0.4	7.6
VALUE OF EXPORTS	38.0	3.6	-4.7
Energy Products	--	11.9	34.7
Industrial Goods & Materials	--	10.7	-1.4
Machinery & Equipment	--	-1.3	-11.5
Automotive Products	--	-9.9	-29.8
VALUE OF IMPORTS	34.7	1.0	-0.3
Energy Products	--	9.8	33.5
Industrial Goods & Materials	--	-1.9	-2.5
Machinery & Equipment	--	-0.8	-4.1
Automotive Products	--	1.5	-10.9

*Previous month revised trade balance level
Source: Statistics Canada/Haver Analytics

over the last three months, the largest decline for the nearly 30 years we have data for.

In spite of Canadian exporters' ongoing headaches in coping with the strong loonie and weakening U.S. economy, the domestic picture has remained much more robust. This trade report does dampen some of that enthusiasm. Real imports declined in every sector outside of energy and a small 0.7% gain in automotive products. The three-month trends show particularly precipitous declines in the imports of machinery and equipment (-5.0%) and other consumer goods (-3.0%), which were each averaging nearly 5% growth over the second half of 2007. The domestic economy will get a boost from the Bank of Canada's recent 50bps cut in interest rates and further aggressive easing likely in the near-term. But with this impetus not likely to show any real effects until the tail-end of 2008, this report adds to the near-term risks that Canadian economic growth will be negative in the first quarter of this year.

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