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TD Economics

Data Release: Canada's trade balance remains in surplus territory in December

- Canada's trade balance remained in surplus territory for a second consecutive month in December, although it narrowed slightly to $923 million (from an upwardly revised $1B in November). Exports rose 0.8%, slightly behind the 1.0% gain in imports. In real terms, exports slipped 1.4% while imports were up 0.4%.
- The gain in exports was driven by energy products (+16%), which reached the highest level in two years as a result of higher prices. Providing some offset were declines in motor vehicles and parts (-5%), and metal ores and non-metallic mineral products (-13%) which gave back some of the massive gains recorded in November.
- Higher imports were underpinned by a 22% jump in the highly-volatile aircraft and other transportation equipment, industrial machinery (+6%), and metal and non-metallic mineral products (+6%). Meanwhile, imports of energy products slid 12% on the month.
- Canada's trade surplus with the U.S. narrowed to $4.4B in December (from $4.7B), as the rise in imports (1.3%) outpaced the increase in exports (+0.2%). Canada's trade deficit with the rest of the world narrowed to $3.5B (previously $3.7B) as exports jumped 2.6% and imports were up by a more modest 0.5% during the month.

Key Implications

- Despite the pull back in export volumes in December, net trade will nonetheless contribute to economic growth during the fourth quarter, which is likely to come in slightly above 2%.
- Going forward, exports are expected to gain some momentum, with US demand expected to remain healthy and the loonie unlikely to move much from its recent mid-70 US cent range. However, with NAFTA renegotiations being a key priority for President Trump, the overall outlook for trade has been clouded. But, while the risks are certainly tilted to the downside, it will likely take some time before any potential measures are put into action.
- As such, we expect the Bank of Canada to remain on hold as it continues to assess any impact from forthcoming policies enacted by the new administration.

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