

# Cdn Trade: Diversifying

Canada's trade deficit unexpectedly narrowed sharply to \$0.9 billion in September, from an unrevised record \$2 bln gap in the prior month. Exports shot up 3.5%, with nearly every non-energy sector recording solid gains. Auto-related exports surged nearly 16% to lead the way. Imports pulled back a tiny 0.1%, as broad weakness was offset by a solid increase in machinery and equipment (looks like businesses are taking advantage of the strong loonie). Canada's auto deficit narrowed to a 7-month low, from August's near record level. Export volumes were up a solid 3.4%, while imports fell 0.6%.

The big story in this report was Canada's diversification away from the United States. Exports to the EU and other OECD countries jumped 34% and 15%, respectively. Canada's surplus with the U.S. narrowed to \$2.1 bln, the second lowest in about 12 years. As U.S. consumption is likely to lag the global recovery, a shift towards other markets will be a key to Canadian exporters' success.

	(year-to-date)				
(C\$ billions)	Sep	Aug	Jul	2009	2008
<b>Total Trade Balance</b>	-0.9	-2.0	-1.1	-4.6	43.4
<b>United States</b>	2.1	2.3	2.2	24.5	74.8
<b>Japan</b>	-0.1	-0.2	0.0	-0.3	-0.1
<b>European Union</b>	0.0	-0.8	-0.7	-4.5	-5.8
<b>Automotive</b>	-0.6	-1.4	-1.1	-7.9	-8.3
<b>Energy</b>	3.6	3.6	3.5	32.8	59.4
(% change)	Sep	Aug	Jul	(y/y)	(ytd/ytd)
<b>Exports</b>	3.5	-5.2	4.7	-28.1	-26.3
<b>United States</b>	0.5	-2.8	4.4	-30.2	-29.1
<b>Automotive</b>	15.8	-3.0	26.1	-16.7	-33.9
<b>Energy</b>	-2.5	-0.6	-0.6	-42.5	-42.5
<b>Imports</b>	-0.1	-2.2	9.1	-18.1	-15.2
<b>United States</b>	1.7	-3.6	11.3	-16.0	-15.5
<b>Automotive</b>	-4.7	3.7	23.0	-20.7	-29.4

**The Bottom Line:** The big jump in export volumes points to a rebound in economic activity in September, especially in auto-related sectors. However, for all of Q3, the real trade balance deteriorated, meaning trade will subtract from Q3 real GDP (data out Nov. 30). While the strong loonie and weak U.S. demand are weighing on exports, Canadian businesses are adapting by shifting trade elsewhere and are benefiting from the appreciating currency by investing in new machinery. If this trend continues, the trade figures should improve, but with the U.S. still Canada's largest customer, trade deficits are likely to persist.

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