Deficit climbs as export market stalls

By Barrie McKenna
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Trade is supposed to be an engine of growth for Canada. Instead, it's become a roadblock.

Stagnant exports of much of what Canada produces contributed to a $940-million trade deficit in November – the 23rd consecutive month the country imported more than it sold to the rest of the world. The weak November trade numbers helped push the Canadian dollar down to a three-year low of 93 cents (U.S.) Tuesday.

Over time, a lower dollar will help exporters. But in the meantime, Canada is continuing to lose export market share – in the U.S. and the rest of the world.

"The export slump isn't just about pipelines, autos, competitiveness or U.S. industrial demand, but seems to be fairly well-rounded across the export economy," Bank of Nova Scotia economists Derek Holt and Dov Zigler concluded in a research note.

The massive trade surpluses that Canada once enjoyed may never return, suggested Bank of Montreal senior economist Benjamin Reitzes.

"Are we headed back to massive continuing surpluses? It certainly doesn't look that way at this point," he said.

The consistent trade deficits Canada has posted since early 2011 are a clear indication that the Canadian dollar is "meaningfully" overvalued, and it has cost the country manufacturing jobs and exports, according to Mr. Reitzes. "That's where it hits home," he said.

Canada's poor trade performance is partly a hangover from a decade in which the Canadian dollar has traded at or near par with the U.S. dollar. That has made exports more expensive on world markets.

For a while, strong exports of oil and other commodities obscured the problem. But now Canadian oil and gas exports are also suffering as the U.S. nears energy self-sufficiency.

Measured by volume, exports actually fell in November. After factoring in inflation, monthly exports have been stuck roughly where they were two years ago.

Excluding energy, exports remain significantly below their 2007 pre-recession peak. The deficit in November was up from a revised level of $908-million (Canadian) in October, and significantly wider than most economists expected. Statistics Canada had previously reported a small surplus for October.

"It will be some time yet before exports support more meaningful overall economic growth," said economist David Madani of Capital Economics.

The weak trade performance is prompting some economists to lower their forecasts for the fourth quarter. The weakness in export volumes suggests that trade was a drag on gross domestic product growth in the fourth quarter, said Toronto-Dominion Bank economist Leslie Pearson. TD had earlier forecast annualized GDP growth of 2.3 per cent in the final three months of 2013.

A lot now hinges on the pace of the recovery in the U.S. – the destination for more than 80 per cent of Canadian exports. And economists still expect exports to grow and the trade deficit to shrink.

The hope was that exports and business investment would pick up the slack from the housing sector and consumer spending in 2013. That does not appear to have happened.

“We still do expect that rotation, it’s just taking a really long time to unfold,” said BMO’s Mr. Reitzes.

In November, exports of autos, parts, aircraft and forestry products were higher. But these gains were offset by lower exports of virtually everything else, including energy, metals, agricultural products, and machinery and equipment.

Imports rose 0.1 per cent, paced by large gains in machinery, equipment and metals.