Canada's trade deficit balloons to new record

By Sunny Freeman
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The loonie probably needs to fall further to shore up Canada's lacklustre export performance, economists said Tuesday after a report showed the country's trade deficit ballooned to a new record.

Statistics Canada said the country's current account deficit, measuring the difference between payments into and out of the country, increased by $3.3 billion to $19.9 billion from the first quarter of the year to the second.

That deficit was largely due to the record $11.3 billion shortfall in the export of Canadian-made goods — the widest ever. One major reason was the Alberta wildfires, which closed many oilsands operations, hindering the country's important energy exports.

"The ongoing current account deficit and specifically the recent softness in goods exports, even outside of oil prices, is a further indication that we need the Canadian dollar to stay at current or even slightly weaker levels to aid the rotation in the economy," said CIBC economist Andrew Grantham.

The loonie has settled in around 76 cent U.S., following a downward spiral that paralleled the decline in global oil prices.

Many had predicted the lower Canadian dollar would help the economy make the transition from oil-reliance back to manufacturing exports, made cheaper by the lower loonie.

The overall current account deficit was less than had been expected but was still the second-largest nominal gap on record — clocking in at around four per cent of GDP, said BMO senior economist Benjamin Reitzes.

"That's much too deep a hole to be viewed as sustainable, though the wildfires hitting energy trade in Q2 suggest we'll get some improvement next quarter," he wrote in a note Tuesday.

"If there's no improvement in Q3, then the Canadian dollar may need to weaken materially further to bring the current account closer to balance."

However, he noted, it's hard to believe the situation will improve unless there is a big rebound in oil prices, an improvement in U.S. business investment or a much weaker Canadian dollar.

The decline in the loonie so far hasn't been enough to turnaround Canada's stagnant economy, though there are some signs it is having an impact, he said.

One bright spot in the report was the narrowing services deficit, which shrunk to $5.1 billion, the smallest it has been since 2011, thanks in part to the weaker loonie making services performed in Canada more attractive for those abroad.

Meanwhile, Canada's foreign direct investment picked up to $14.4 billion in inflows, with investors buying some $38 billion in Canadian stocks and bonds, one of the best quarters on record.

Paul Ashworth, chief North America economist at Capital Economics was even more pessimistic about the impact of the weak export data on potential economic growth.

"For a short time late last year, non-energy exports did appear to be enjoying a marked surge. Unfortunately, that surge has been more than reversed in the first half of this year, dashing hopes that the weaker currency would offset some of the energy fallout," he said.

"With consumption growth grinding to a halt and signs emerging that the housing boom has peaked, it is hard to see where any recovery in GDP growth is going to come from."

The economic picture will become a little clearer over the course of this week, with a third-quarter gross domestic product report out Wednesday, manufacturing numbers out Thursday and July trade figures released on Friday.