

Canada: Q3 Balance of Payments Hit Expectations

- Canada's current account deficit widened to CAD 9.9 bn in Q3 after having narrowed to CAD 6.7 bn in Q2. Still, the current account deficit remains relatively small compared with recent years.
- As expected, Q2's exceptional trade performance faded and the goods trade deficit widened by CAD 2.8 bn to CAD 3.9 bn in Q3 owing to weaker volumes and a poorer terms of trade, led by energy prices.
- The balance of net portfolio flows turned positive again in Q3, but net FDI flows remained in the red.

CURRENT ACCOUNT DEFICIT WIDENS, BUT STILL MODEST

Canada's current account deficit came in largely as already-released monthly trade and securities-transactions data implied it would, widening by CAD 3.1 bn in the third quarter to CAD 9.9 bn (chart 1). The increase in the current account deficit was driven by the expected unwinding of the trade in goods 'miracle' in Q2 when transitory effects narrowed the goods deficit to its lowest level since Q4-2016. Q3's widening in the trade deficit by CAD 2.8 bn to CAD 3.9 bn was only partially compensated for by a CAD 0.4 bn trimming in the services deficit to CAD 4.1 bn. The primary and secondary income deficit also increased, widening by CAD 0.7 bn to CAD 1.9 bn in the third quarter.

The widening of the goods deficit was largely the result of a decrease in the value of exports of energy products led by price declines (chart 2). Exports of goods decreased by CAD 3.9 bn to CAD 149.5 bn in Q3 with energy products accounting for CAD 2.8 bn of the decline. Imports were also down for the quarter, falling CAD 1.0 bn to CAD 153.4 bn, the bulk of which were motor vehicles and parts, industrial machinery equipment and parts, and electronic and electrical equipment and parts that partially reflected industrial actions.

The narrowing in the services trade deficit to CAD 4.1 bn from CAD 4.5 bn in Q2 reflected improvements in both the commercial services and travel accounts. The commercial services surplus increased by CAD 0.3 bn to CAD 1.2 bn while the travel deficit narrowed BY CAD 0.1 bn to CAD 2.2 bn in Q3. An increase in education-related travel to Canada from countries other than the US has been the primary reason for the narrowing of the travel deficit in recent years.

PORTFOLIO INVESTMENT NET INFLOWS RESUME, BUT TREND WEAK

On the portfolio investment side, foreigners purchased CAD 7.4 bn worth of Canadian securities in Q3 after divesting CAD 7.0 bn in Q2 (chart 3). Non-residents targeted Canadian bonds, purchasing CAD 8.1 bn, most of which were new issues of private corporate bonds denominated in GBP. Foreign investors also divested CAD 2.8 bn in Canadian money market instruments, but added CAD 2.1 bn in Canadian equities to their holdings. New equity issuances to non-residents, largely as a result of M&A activity, more than offset a second straight quarter of net secondary market equity sales by non-residents.

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Chart 1

Canadian Current Account Balances

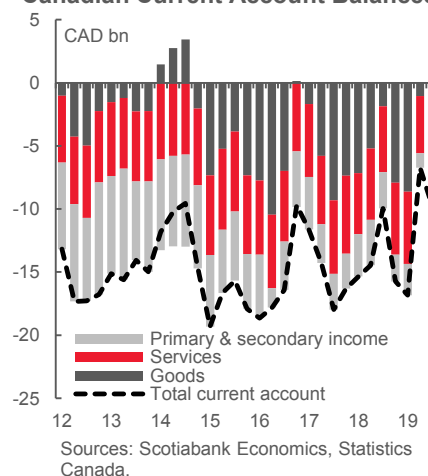
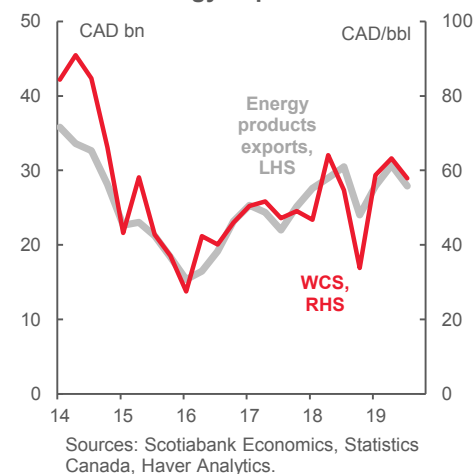


Chart 2

Value of Energy Exports Falls in Q3



Canadian investors on the other hand slowed investment from foreign securities to CAD 5.9 bn in Q3, down CAD 3.1 bn from Q2 (chart 4). These purchases were focused on non-US foreign bonds and US corporate bonds, but these additions were more than compensated for by the largest divestment in US Treasuries since Q4-2016.

Overall, net portfolio investment flows ticked back up into positive territory to CAD 1.5 bn in Q3, but the rolling 12-month balance of portfolio flows edged down to its second lowest level in recent years (chart 5).

CURB YOUR ENTHUSIASM: NET FDI STILL IN NEGATIVE TERRITORY

Direct investment into Canada slowed to CAD 13.4 bn while direct investment abroad also decelerated to CAD 15.0 bn in Q3, which narrowed Canada's net foreign direct investment (FDI) deficit for the second straight quarter, following a longer-term trend from early-2017 toward better FDI balances (chart 6). Canadian M&A activity abroad totalled CAD 6.5 bn, the lowest in five quarters, and was focused in the US. Foreign M&A activity in Canada slowed to CAD 4.0 bn, after a strong Q2 that saw CAD 10.7 bn in activity originating mainly from the US and to a lesser degree from Australia.

Still, despite recent improvements in net FDI flows, Canada's rolling 12-month net FDI balance has been in deficit since Q4-2014 and remains in the red now (chart 7).

Chart 3

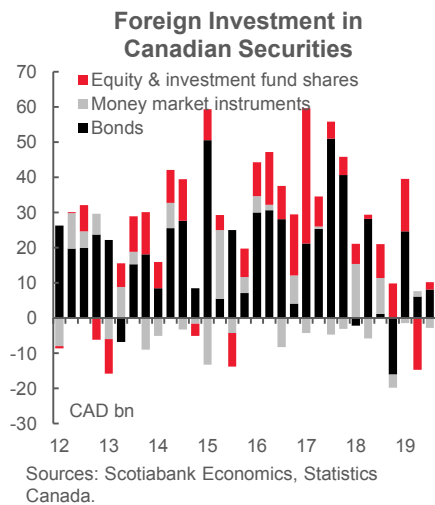


Chart 4

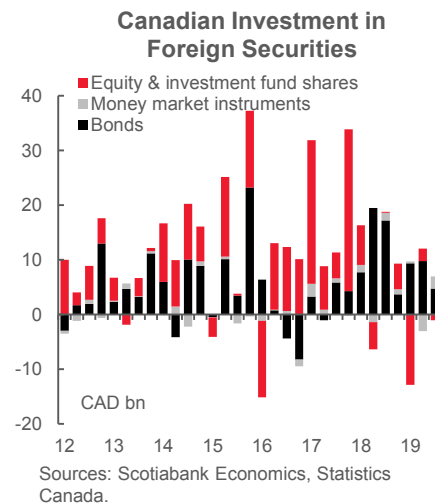


Chart 5

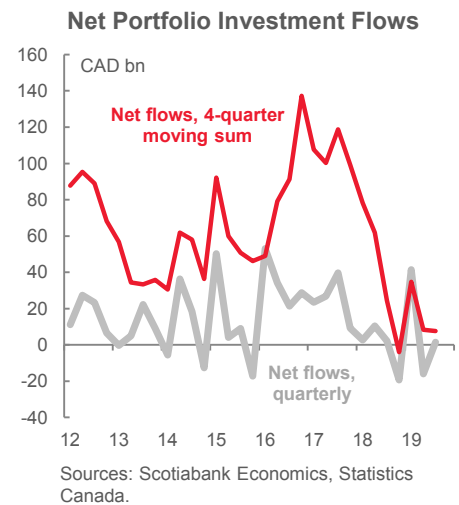


Chart 6

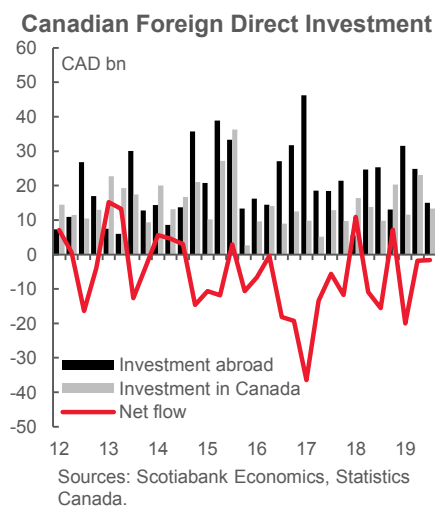
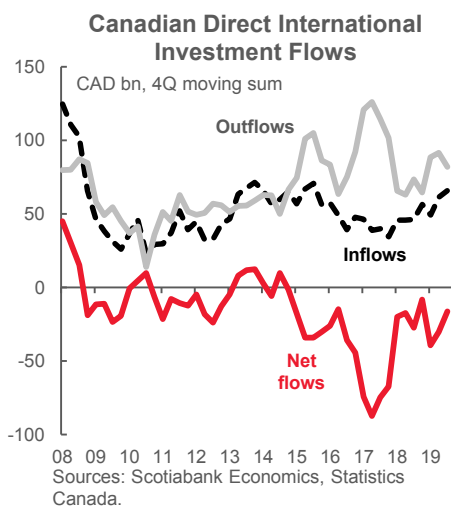


Chart 7



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