

Canada: Q2-2020 Current Account Narrowed Significantly

- Canada's current account deficit narrowed to CAD 8.6 bn in Q2-2020 on reduced trade deficit in services, as the pandemic all but stopped international travel.
- Record inflows into Canadian bonds continued, while Canadians redeployed capital back into foreign securities (CAD 24.1 bn).
- Both outgoing and incoming direct investment picked up in Q2-2020, but net foreign direct investment into Canada moved back into slight negative territory at CAD 2.9 bn.

Q2-2020 CURRENT ACCOUNT DEFICIT TIGHTENS—BUT TRADE ACTIVITY WEAK ACROSS THE BOARD

In Q2-2020, Canada's current account deficit narrowed by CAD 4.6 bn to CAD 8.6 bn (chart 1). While Canada was a net importer of both goods and services, the total trade deficit tightened by CAD 5.3 bn to CAD 7.9 bn as imports declined more than exports. The significant narrowing of the trade deficit is likely to be reflected in a less negative growth contributions from trade in tomorrow's Q2 GDP report. Net investment income, while remaining in positive territory for the third straight quarter, pulled back slightly to CAD 0.7 bn (chart 2).

The deficit in goods trade narrowed by CAD 1.0 bn to CAD 7.7 bn in Q2-2020.

Motor vehicles and energy product imports and exports, to no surprise, dominated the decline in Q2-2020 goods trade activity. Goods trade in the second quarter pulled back to early-2011 levels (chart 3), while modest activity rebounds were realized in June.

The trade in services deficit almost erases itself for the first time in history (chart 4).

Travel services swung from a 2.3 bn CAD deficit to a 2.0 bn CAD surplus. COVID-19 travel restrictions significantly reduced tourism and travel activity, but look for a rebound in overall activity as restrictions ease in the coming months.

STRONG INFLOWS TO CANADIAN SECURITIES CONTINUE IN Q2-2020

Net portfolio investment flows in Q2-2020 totalled CAD 35.8 bn in net inflows (chart 5). There was a continued flight to Canadian bonds, as investors ramped up their purchases to CAD 68.1 bn (chart 6). This inflow was partially offset by CAD 20.6 bn withdrawn from Canadian equities. Meanwhile, Canadians invested in CAD 24.1 bn of foreign securities, led by a CAD 25.7 bn investment in foreign equities.

INBOUND AND OUTBOUND FDI ACTIVITY PICK UP SLIGHTLY IN Q2-2020

Net foreign direct investment outflow totalled CAD 2.9 bn for Q2-2020 despite a notable pick-up in total direct investment from last quarter (chart 7). Strong M&A activity boosted the CAD 11.8 bn direct investment into Canada, while outward flows were directed to the finance and insurance sectors. FDI flows remain volatile as uncertainty regarding COVID-19 continues to impact investment decisions.

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Chart 1

Canadian Current Account Balances

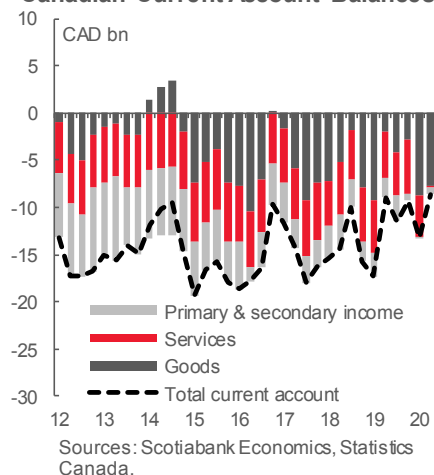


Chart 2

Canada Investment Income Balance

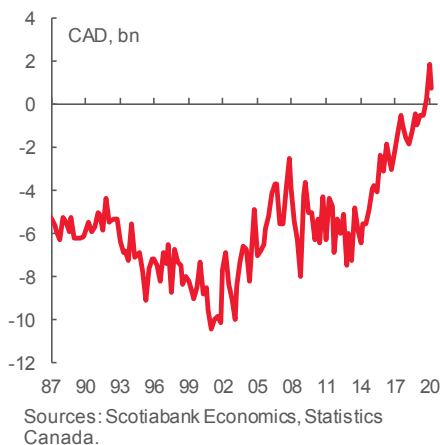
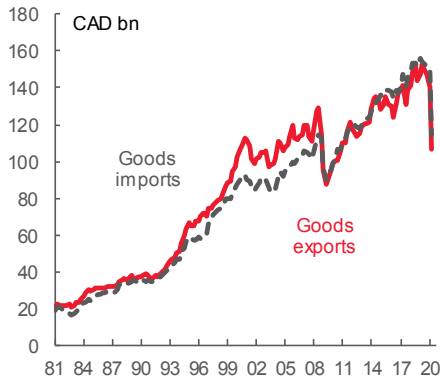


Chart 3

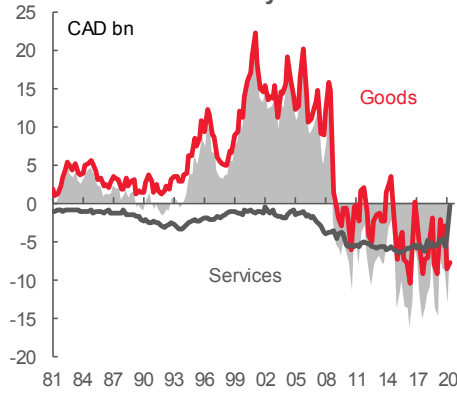
Canada: Goods Trade Activity Pulls Back Sharply



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

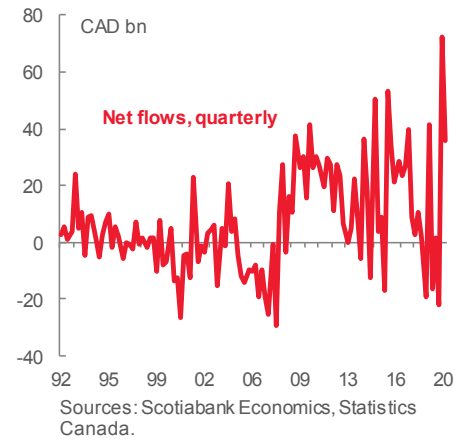
Canada: Services Deficit Smallest in History



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

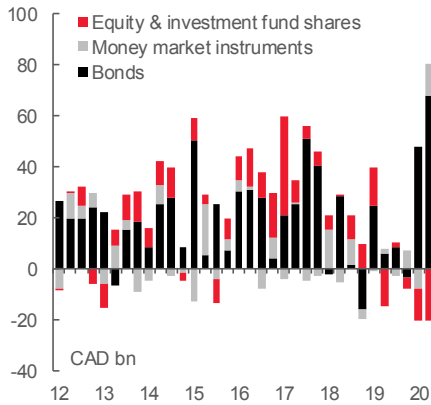
Net Portfolio Investment Flows



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

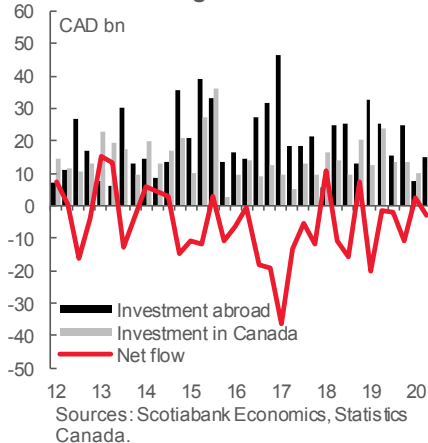
Foreign Investment in Canadian Securities



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

Canadian Foreign Direct Investment



Sources: Scotiabank Economics, Statistics Canada.

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