

# Canada's current account deficit Q2 widens to -C\$11.0B.

## Weaker trade profile, widening deficit

**Canada's current account (im)balance deteriorated in during the second quarter of the year with the deficit widening out to -CAD11.0B from first quarter's downwardly revised -CAD8.5B (from -CAD7.8B). The deficit is back of market expectations and our own that were looking for the deficit to hit -CAD10.7B. Going into this morning's data, the story was already pretty well fleshed out as the deterioration in the trade picture already fairly evident.**

Indeed, the trade (goods and services) deficit accounted for nearly the entire widening in the deficit as the balance swung from surplus in Q1 over to deficit in Q2 with the net change running at -CAD2.5B. Our forecast was looking for a slightly more pessimistic decline of -CAD2.8B.

The travel deficit also widened out by -CAD300mn not far off our own forecast for a widening of -CAD250mn. Again, the story was already well fleshed out. Travel to Canada had declined in the second quarter as the Winter Olympics in Q1/10 came to a conclusion.

On the upside, the investment income flows improved rather dramatically. We had been looking for some improvement but not anywhere near the CAD900mn that was realized. Although as is the tendency, the investment income flows are the real wild card for the report and tend to swing around wildly from quarter to quarter. For the second story, one of the chief drivers of income flows was a -7.2%q/q ann. decline in Canadian corporate profits in Q2 which suggested that profits paid to direct foreign investors would be hampered. In keeping with this theme, the current account reflected a decline of 8%q/q on payments of profits.

Net, net, the report will not have broad policy implications but rather just adds a little color to that which is already known. If there was to be an impact the expectation would be for it to resonate in the market for CAD which is only slightly weaker vs USD post release.

# Disclosure appendix

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