

Canada: Wider than expected current account deficit.

Net trade is the perennial problem, current transfers the surprise.

Canada's Q3/10 current account deficit widened to a greater than expected CAD17.5bn while Q2's deficit was revised lower to CAD13.0bn from CAD11.0bn. A burgeoning trade deficit in goods remains the albatross around the neck of the current account and the Canadian economy as a whole.

For today's report, the bulk of the deterioration in the current account deficit is found at the feet of a CAD4.3bn widening in the trade deficit. In that, a not all too surprising outcome. Our own forecast for the current account was looking for the trade deficit to have expanded by CAD4.2bn.

Facts

In other areas of the report, the often volatile investment income balance saw a narrowing in the deficit by close to CAD450mn, again, not far removed from the CAD400mn we had been looking for. Instead, the bulk of the surprise factor came out of rather unexpected -CAD700mn swing in the current transfers component of the report.

Implications

From an economic standpoint, given that the surprise factor in the report emanated out of the current transfers component (unrelated to production) we don't feel that today's data negatively impacts our view on tomorrow's GDP release beyond what we have already forecast (1.3%q/q ann). The current account trade deficit, while disappointing, was none the less well within expectations.

For Canada, the story on the current account is as much a story detailing the challenges confronting the Canadian economic recovery. A little context. In 2008, Canada was running a current account trade balance of CAD46bn. In 2010, Canada, is running a CAD7.6bn deficit YTD that is expected to widen further by year end. That which ails the current account ails the economy as a whole. Recall that in Q2/10, net trade dragged over 4.0ppt out of headline GDP and again, given a yawning trade deficit, the expectation is for much of the same in tomorrow's look at Q3/10 GDP.

The bottom line here, while Canada's current account profile has slide rapidly from a surplus in 2008 on over to a CAD43.5bn deficit in 2009 - a number that is sure to be eclipsed in 2010 - there is however little concern in the market for Canada's ability for fund its current account deficit. Instead, market focus is thought to be squarely on Canada's debt profile where Federal debt to GDP is below 35% and the Federal deficit is running just above 3% of GDP.

Disclosure appendix

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Issuer of report

HSBC Securities (Canada) Inc.
70 York Street, 8th Floor
Toronto, Ontario M5J 1S9, Canada
Telephone +1 416 868 7523
Fax +1 416 364 2543
Website: www.research.hsbc.com

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