

Economy at a Glance

Prepared by Alex Carrick, ConstructConnect® Chief Economist

Canada achieves foreign trade gains; U.S. still sinking (Part I)



Alex Carrick

Canada's foreign trade picture brightened considerably in June. The nation's merchandise trade balance recorded its biggest surplus since before the 2008-2009 recession. Furthermore, there have now been four surpluses in the past six months. During the decade prior to this year, Canada's monthly goods trade balance spent a lot of time below the zero x-axis (Graph 1). ('Merchandise' trade is a fancier way of saying 'goods' as opposed to 'services' trade.)

Giving a huge helping hand to Canadian trade, at present, is the pickup in the world economy, which is giving a boost to commodities demand and prices. For the construction sector, there's a crucial counterbalancing aspect to higher commodity prices. Commodities (or raw materials) are the crucial building blocks of all construction materials (e.g., copper in wiring; iron ore in structural and rebar steel). Therefore, rising resource prices will lift construction input costs.

But there's another aspect to consider. Higher prices for their extraction output are an incentive for resource owners to undertake expansion expenditures, historically accounting for some of the largest construction projects anywhere.

What really makes Canada tick

A goods trade surplus makes a direct positive contribution to a country's gross domestic product. Exports minus imports (X-M) is a line item in GDP.

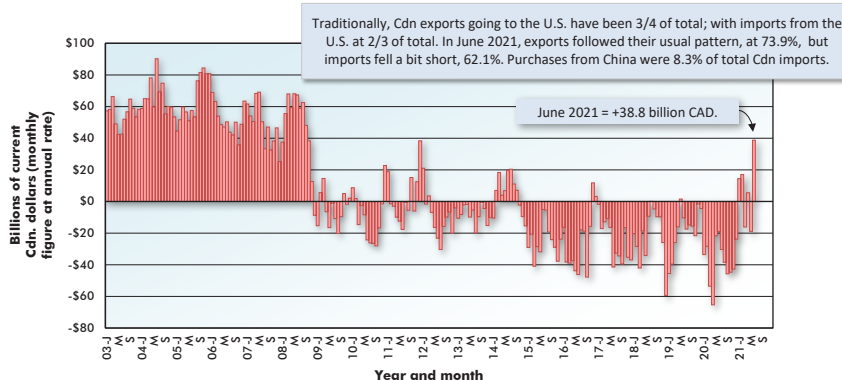
Graphs 2 through 13 highlight a key factor in what enables the Canadian economy to function successfully. This is a truth that is often overlooked or brushed aside these days, when the focus instead is on high-tech work or the 'greening' of the environment.

Graphs 2 through 13 show the history of exports minus imports in eleven resource product areas. There's only one instance where Canada doesn't have an advantage in exports compared with imports, refined petroleum products. Outgoing and incoming trade in gasoline and other fossil fuel derivatives (as opposed to crude oil and natural gas) is about even (Graph 4).

To be continued in *Economy at a Glance*, Vol. 17, Issue 131.

For more articles by Alex Carrick on the Canadian and U.S. economies, please visit: www.constructconnect.com/blog.

Graph 1: Canada's Foreign Trade: The Merchandise Trade Balance – June 2021



During the first half of 2021, Canada experienced 4 months of foreign trade surpluses & 2 of deficits. **June 2021's figure of +\$38.8 billion CAD (annualized) was the best since before the 2008-2009 recession.** A wave of commodity price increases, especially in the oil & natural gas spheres, is helping Canada move to a positive trade position and away from shortfalls. A foreign trade surplus contributes directly to gross domestic product (GDP) growth.

The last data point is for June 2021.

Based on seasonally adjusted monthly figures, projected at an annual rate.

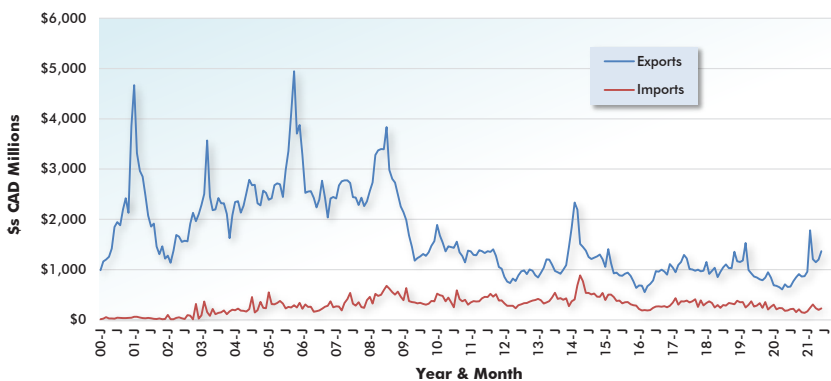
Data source: Statistics Canada/Chart: ConstructConnect — CanaData.

Graph 2: Canada's Foreign Trade in Crude Oil & Crude Bitumen



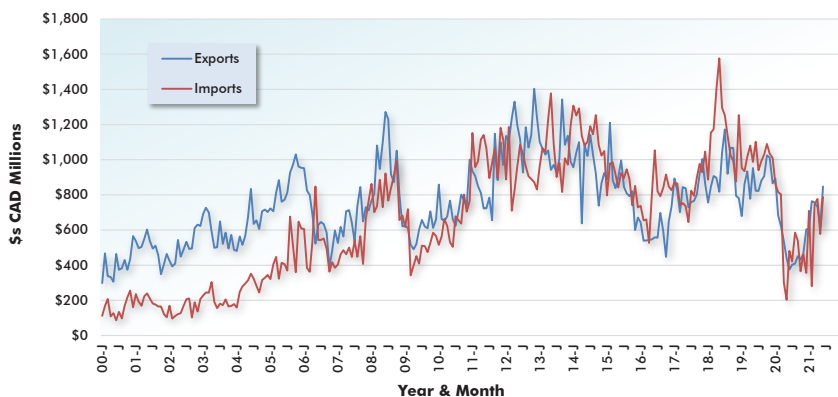
For more than a decade, Canada has managed a strong surplus in the trade of crude oil. The dollar volume of Canadian oil exports is many times (i.e., currently 8x) the value of natural gas exports.

Graph 3: Canada's Foreign Trade in Natural Gas



Canada's earlier big advantage in the trade of natural gas with the U.S. has largely dissipated due to the emergence of large hydraulic fracturing capacity south of the border. Moving forward, Canada's best prospects for gas exports probably lie in LNG projects on both coasts.

Graph 4: Canada's Foreign Trade in Refined Petroleum Product



Most of Canada's refined petroleum exports are shipped out of Irving's Saint John, N.B., refinery.



For more economic charts and articles, visit: <https://canada.constructconnect.com/canadata/forecaster>

The latest data points are for June 2021.

Data source: Statistics Canada.
Charts: ConstructConnect — CanaData.

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Continued from *Economy at a Glance*, Vol. 17, Issue 130.

Also, Canada no longer has the outsized trade lead in natural gas that it once had, due to U.S. capacity expansions tied to new fields made possible by hydraulic fracturing.

But in all other cases, Canada is running a surplus, and the X-M discrepancy is particularly large for crude oil (Graph 2), iron ore (Graph 7), copper (Graph 8), potash (Graph 11), aluminum (Graph 12), and forestry products (Graph 13).

The recent price gains for these commodities have been documented previously by ConstructConnect in the article *Little Letup in U.S. and Canadian Construction Material Cost Increases*. But it bears repeating that continuing commodity price strength will contribute significantly to Canada's GDP growth and will be a spur to investment (a.k.a., construction) out in the sometimes-not-so-accessible field.

Plus, there's another big construction implication to consider. The need for infrastructure spending has become a hot topic these days. In all the discussion about where the emphasis should be placed, let's not forget improvements to the rail carrier systems and the port cargo handling and border crossing facilities that expedite the outwards flow of Canada's resource bounty.

Pipeline construction should also be mentioned, but that subject has become so contentious, only elected politicians, working with indigenous groups, and turning for guidance from the courts, will have a shot at sorting out the direction to be taken.

To be continued in *Economy at a Glance*, Vol. 17, Issue 132.

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The latest data points are for June 2021.

Data source: Statistics Canada.
Charts: ConstructConnect — CanaData.

Graph 8: Canada's Foreign Trade in Copper

The latest data points are for June 2021.

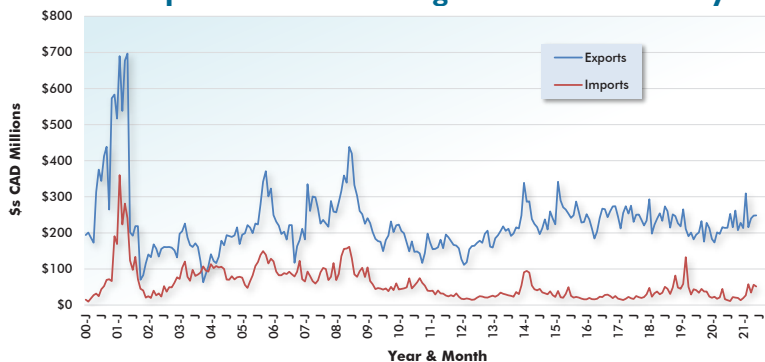
Data source: Statistics Canada.
Chart: ConstructConnect — CanaData.

Graph 9: Canada's Foreign Trade in Nickel

The latest data points are for June 2021.

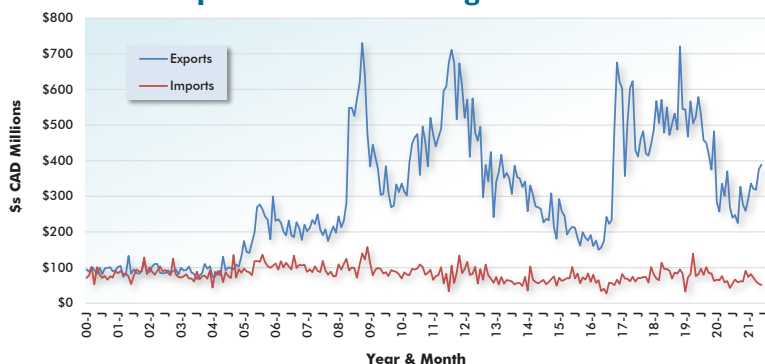
Data source: Statistics Canada.
Chart: ConstructConnect — CanaData.

Graph 5: Canada's Foreign Trade in Electricity



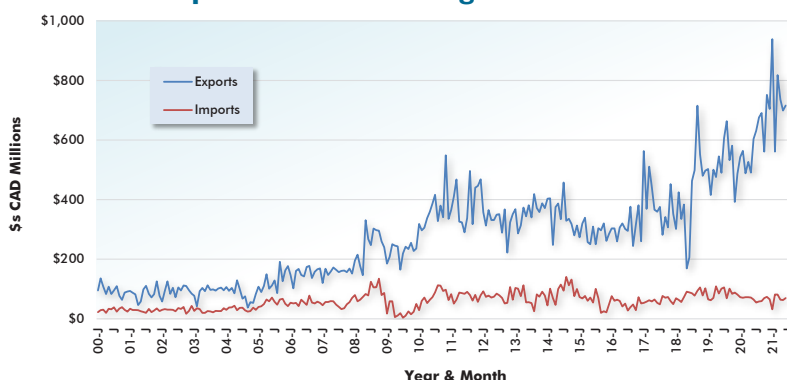
Canada has almost entirely shifted to no carbon or low carbon emitting sources of electric power generation. Many U.S. states are still heavily into thermal coal. New reversible transmission lines are being built north-south from Manitoba, Ontario & Quebec, so the opportunities for net export gains are clear.

Graph 6: Canada's Foreign Trade in Coal

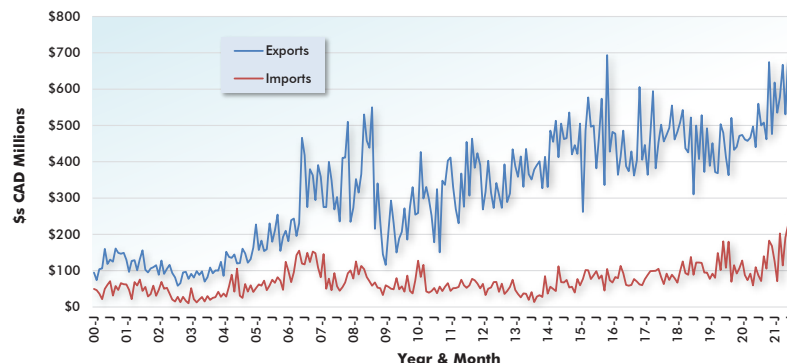


Thermal coal-fired electricity in Canada is being eliminated. But Canada is still an important exporter of the metallurgical coal used in steelmaking, with mines in the provinces of B.C. and Alberta being the major sources and Teck Resources being one of the largest international suppliers.

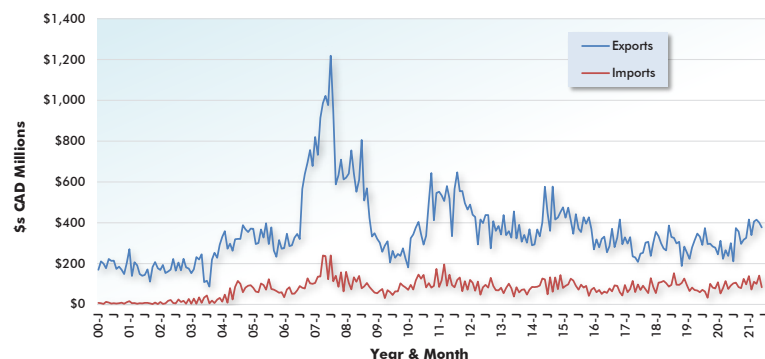
Graph 7: Canada's Foreign Trade in Iron Ore



Most of the iron ore in Canada is mined along the Quebec-Labrador border. Nunavut also accounts for some production. (Rio Tinto is the major shareholder of Iron Ore Company of Canada.)



The two major copper producing provinces are British Columbia and Ontario. Further back in terms of output are Manitoba, Quebec and Nfld/Labrador.



Ontario is number one for nickel production, but the names of the grand old giants in the industry, Inco and Falconbridge, have given way to Vale and Xstrata/Glencore. Quebec & Nfld/Labrador (Voisey's Bay) are other nickel producing provinces. Manitoba is far back in fourth spot.

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U.S. foreign trade in steep slide

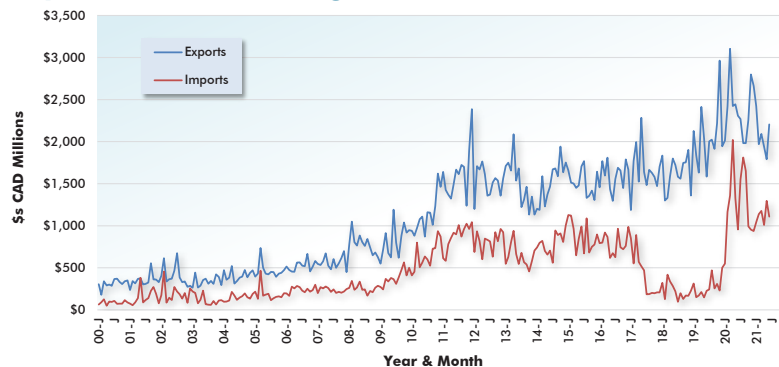
Near the end of this article is Graph 14 showing the U.S. foreign trade position in goods and services combined.

In June, there was a shortfall of -\$910 billion USD, made up of -\$1,118 billion in goods and +\$208 billion in services. The 'goods' X-M gap has sailed well past minus a trillion dollars and in June was at an all-time negative record.

This is unlikely to be sustainable. There are three solutions, none of them palatable: (1) higher interest rates to bring in more foreign investment (upping the capital account to offset the current account in the Balance of Payments); (2) more import restrictions through tariff or equivalent measures; and (3) a decline in the value of the greenback.

Interestingly, the share of America's trade deficit originating with China has fallen significantly, from about 50% or half just a few years ago to a current proportion that has dropped under 30%. But some surprising other countries (e.g., Switzerland with a 5.5% share; Ireland, 5.3%) have stepped into the 'void'.

Graph 10: Canada's Foreign Trade in Gold, Silver & Platinum



Ontario is number one for gold production in Canada, with Quebec not far behind. British Columbia is a distant third. The nation's major players are Newmont (acquired Goldcorp) and Barrick.

Graph 11: Canada's Foreign Trade in Potash



Nutrien, formed through the merger of Potash Corp of Saskatchewan and Agrium, is Canada's largest producer. All output comes from Saskatchewan; mining in New Brunswick has been terminated.

Graph 12: Canada's Foreign Trade in Aluminum



Aluminum production in Canada is concentrated in Quebec (Sept-Iles region) and British Columbia (Kitimat). The biggest companies in the field are Rio Tinto Alcan & Alcoa Corporation.

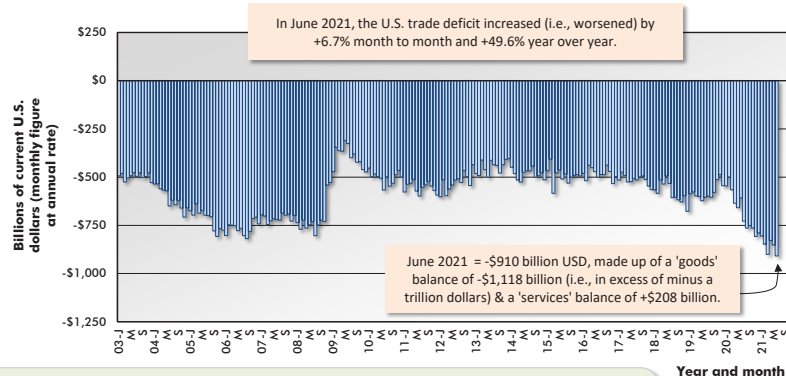


Among provinces, B.C. is Canada's large forestry product exporter. Quebec and Ontario are also major producers. Proportionally, the forestry sector is especially important to the economy of New Brunswick. The two major Canadian woodlot companies are West Fraser Timber & Canfor.

Graph 14: United States' Foreign Trade: Goods and Services Balance – June 2021

The last data point is for June 2021. Based on seasonally adjusted monthly figures, projected at an annual rate.

Data source: Bureau of Economic Analysis (BEA).
Chart: ConstructConnect — CanaData.



In June 2021, the U.S. trade deficit increased (i.e., worsened) by +6.7% month to month and +49.6% year over year.

June 2021 = -\$910 billion USD, made up of a 'goods' balance of -\$1,118 billion (i.e., in excess of minus a trillion dollars) & a 'services' balance of +\$208 billion.

In moving well past minus a trillion dollars (annualized) in June, the 'goods trade' deficit has now set a new all-time record. Furthermore, the help coming from the 'services' trade surplus isn't as strong as it used to be (-3.9% m/m and -18.4% y/y in June). The famous 'twin deficits' problem encompasses foreign trade & Washington's fiscal position. The latter is expected to be -\$3.4 trillion for the year ending Sep 30 2021. Last year's budgetary shortfall was -\$3.1 trillion.