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OFFICE OF
THE CHIEF
ECONOMIST

QUARTERLY ECONOMIC AND TRADE REPORT

Q3 2023

THIRD QUARTER 2023

	% change, Q3 2023 vs Q2 2023	% change, YTD 2023
Global real GDP*	2.9%	2.7%
Global merchandise trade volume	-0.4%	-2.2%
Canadian real GDP*	-1.1%	1.2%
Canadian exports (goods & services)	2.5%	0.8%
Canadian imports (goods & services)	-0.3%	4.1%

Notes: *Throughout the report, GDP is quarterly changes at annualized rates. "YTD %" is the year-to-date change compared to the same period in the previous year.

Source: Oxford Economics, Netherland Bureau for Economic Analysis, Statistics Canada.

HIGHLIGHTS

- Economic growth was subdued or negative in most of the world's largest economies in the third quarter (Q3), with notable exceptions being the United States (U.S.) and China, where growth remained strong. Due to weak economic conditions, world merchandise trade volumes decreased for the fourth consecutive quarter in Q3.
- Goods exports to the U.S., China, the United Kingdom and Hong Kong SAR led Canadian goods export growth in Q3. Exports to most of Canada's other top trading partners were weak or contracted. On the product side, energy product exports increased 14.5%, driven by price increases. Services exports grew 1.3% in Q3, with a notable 3.3% growth in travel services.
- Canadian goods imports declined 0.8% in Q3, with widespread declines as 8 of 10 goods import categories experienced decreases. Services imports grew 1.8% in Q3, with a notable 6.2% growth in travel services.
- In the short term, global economic growth is expected to be subdued as higher interest rates and tighter financial conditions weigh on consumption and business investment. Furthermore, the stock of savings accumulated during the pandemic, which supported consumer spending, is declining in advanced economies in recent quarters, especially in the U.S. With global demand expected to soften, the Canadian export outlook is expected to slow.

THE U.S. AND CHINA SUPPORTED GLOBAL GROWTH IN Q3

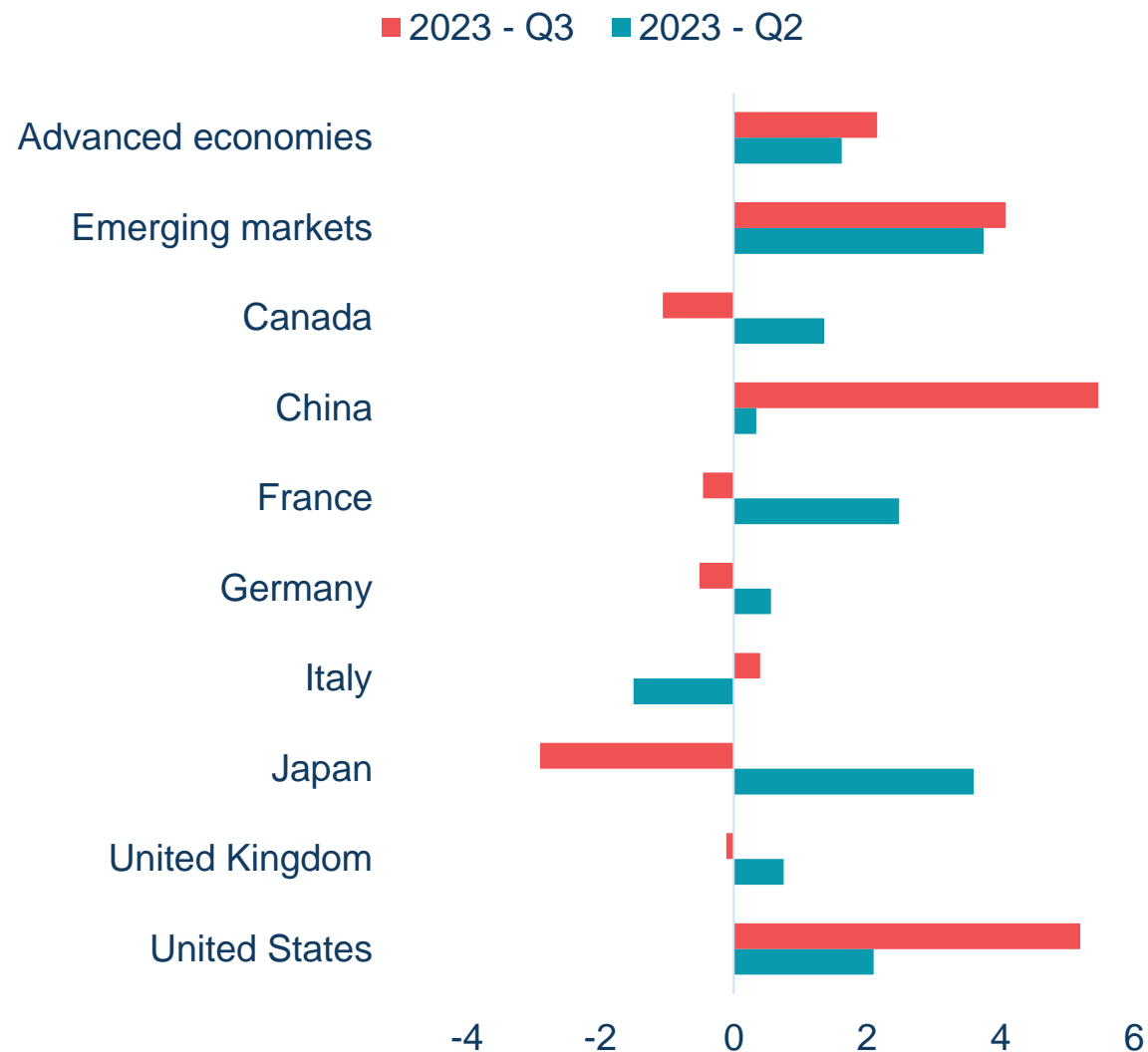
Global economic growth in Q3 (+2.9% annualized) was mainly driven by the U.S. and China, with other top economies posting either muted growth or contracting.

In the U.S., Q3 GDP growth (+5.2% annualized) was exceptionally strong, driven by consumer spending and inventory investment. U.S. consumers have been spending out of “excess” pandemic savings, and as a result, the U.S. savings rate is now lower than pre-pandemic levels. The strength in consumer spending is expected to slow going forward as high interest rates and prices erode purchasing power, while the labour market is expected to continue to ease.

In China, growth in Q3 GDP (+5.5% annualized) was driven mainly by private consumption, likely due to a combination of policy-easing measures that synergized well with the summer and Golden Week spending season. Like the U.S., consumers funded spending with savings as the saving rate dipped sharply in Q3. China’s real estate sector remains a concern, as property lending contracted for the first time in Q3.

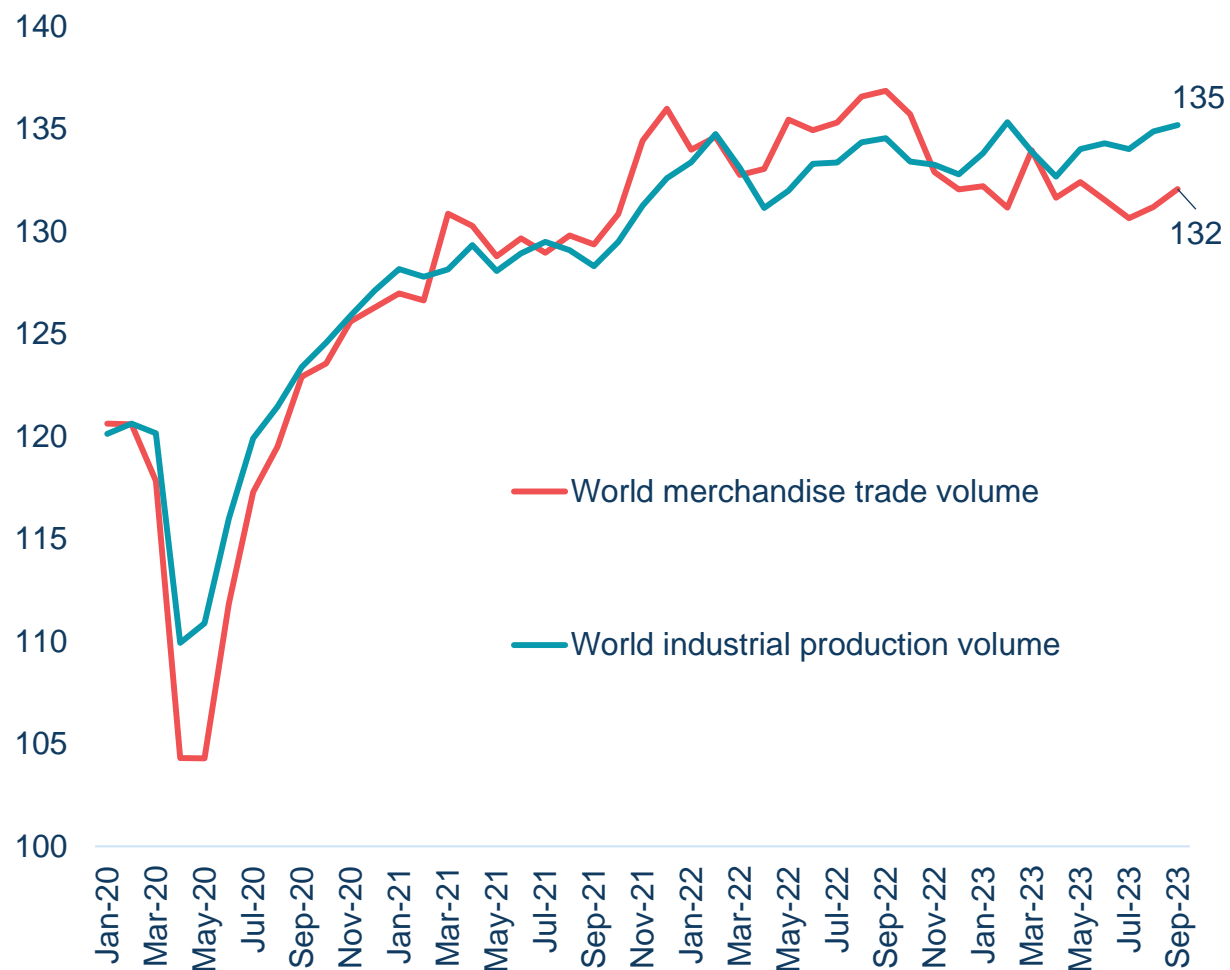
Elsewhere, major European economies (France, Germany, Italy, and the United Kingdom) witnessed subdued or negative growth in Q3, partially due to weak consumption. In Japan, while the largest drag in Q3 was inventory investment, business investment also contracted, and private consumption stagnated.

Real GDP growth, top economies (quarterly % change, annualized)



Sources: Oxford Economics, Haver Analytics, retrieved on December 8, 2023.

World merchandise trade and industrial production volume (Index 2010 = 100)



WORLD MERCHANDISE TRADE VOLUMES DECLINE FOR THE FOURTH CONSECUTIVE QUARTER

World merchandise trade volumes decreased 0.4% in Q3, the fourth consecutive quarterly decrease. The contraction was due to lower imports (-1.0%) while exports grew 0.2%.

The contraction in imports was broad-based, with only the U.S. (+0.3%) and emerging Asia excluding China (+0.5%) eking out growth.

On the exports side, merchandise export volumes from advanced economies grew 0.3% in Q3, with notable growth from the U.S. (+3.8%) following a Q2 contraction in U.S. exports (-4.0%).

Merchandise export volumes from emerging economies (-0.1%) declined slightly, with growth in China (+0.5%) and emerging Asia excluding China (+1.0%) being offset by declines in emerging eastern Europe (-0.9%), Latin America (-0.2%) and African and Middle East (-2.5%).

World industrial production grew 0.8% in Q3, driven by growth in emerging economies (+1.5%) as industrial production in advanced economies declined 0.1%. Notably, industrial production grew 3.1% in China in Q3 after a decline of 2.6% in Q2.

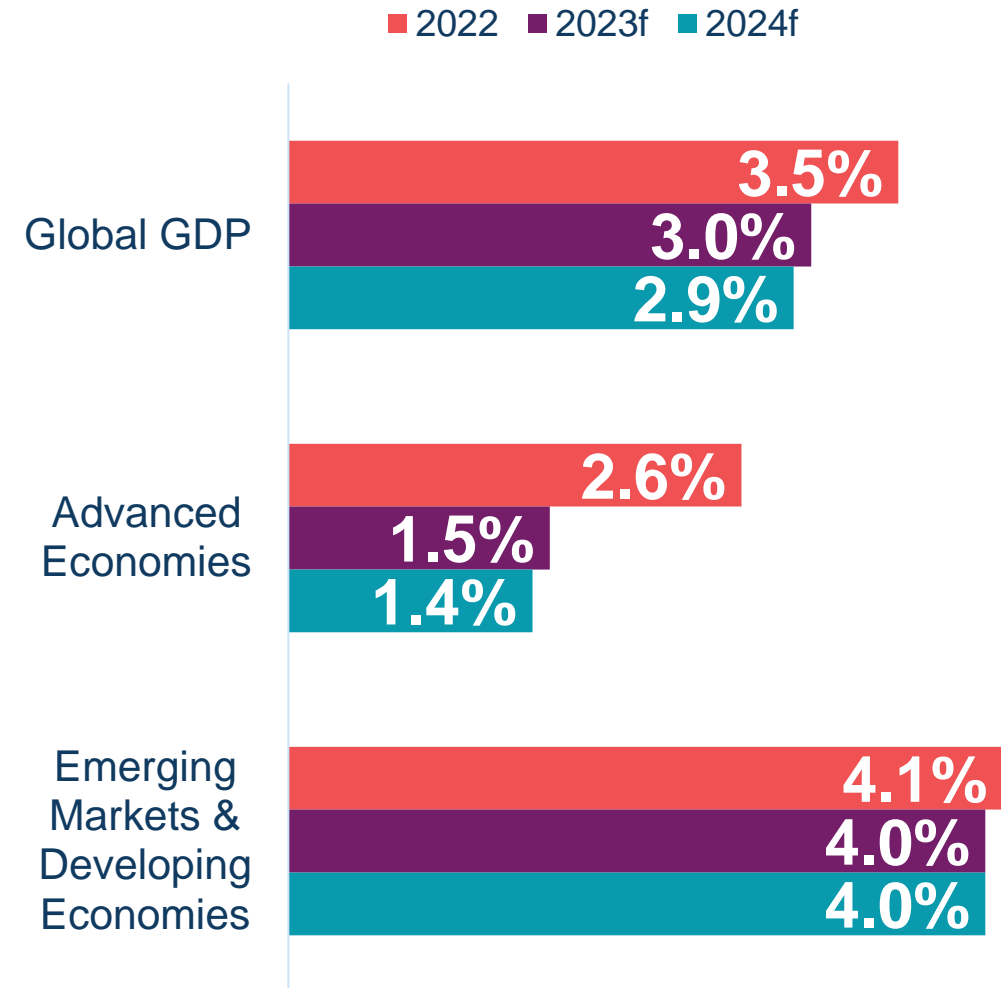
ADVANCED ECONOMIES TO DRIVE EXPECTED GLOBAL SLOWDOWN

The IMF expects global economic growth to fall from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, well below the historical (2000-19) average of 3.8%.

Most of the growth slowdown is expected to come from advanced economies, with estimated growth going from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024. About 90 percent of advanced economies are projected to see lower growth in 2023. In contrast, growth is expected to decline very modestly in emerging markets and developing economies, from 4.1% in 2022 to 4.0% in both 2023 and 2024. China's expected slowdown is partially driving the emerging market slowdown; on continued property market challenges, China's GDP growth is expected to slow from 4.9% in 2023 to 4.7% in 2024.

Several headwinds face the global economy in the short term. Elevated inflation and the resulting rise in interest rates around the world are expected to continue to put downward pressure on economic activity. Furthermore, the stock of savings built during the pandemic has been supporting consumer spending, but this stock is declining in advanced economies, especially in the U.S. The recovery in tourism is also maturing, with tourist arrivals in most regions approaching pre-pandemic levels. As a result, the contribution to global growth from the rebound in tourism is expected to slow. Lastly, recent leading indicators point to a wide-ranging slowdown or contraction in the manufacturing sector in the short term.

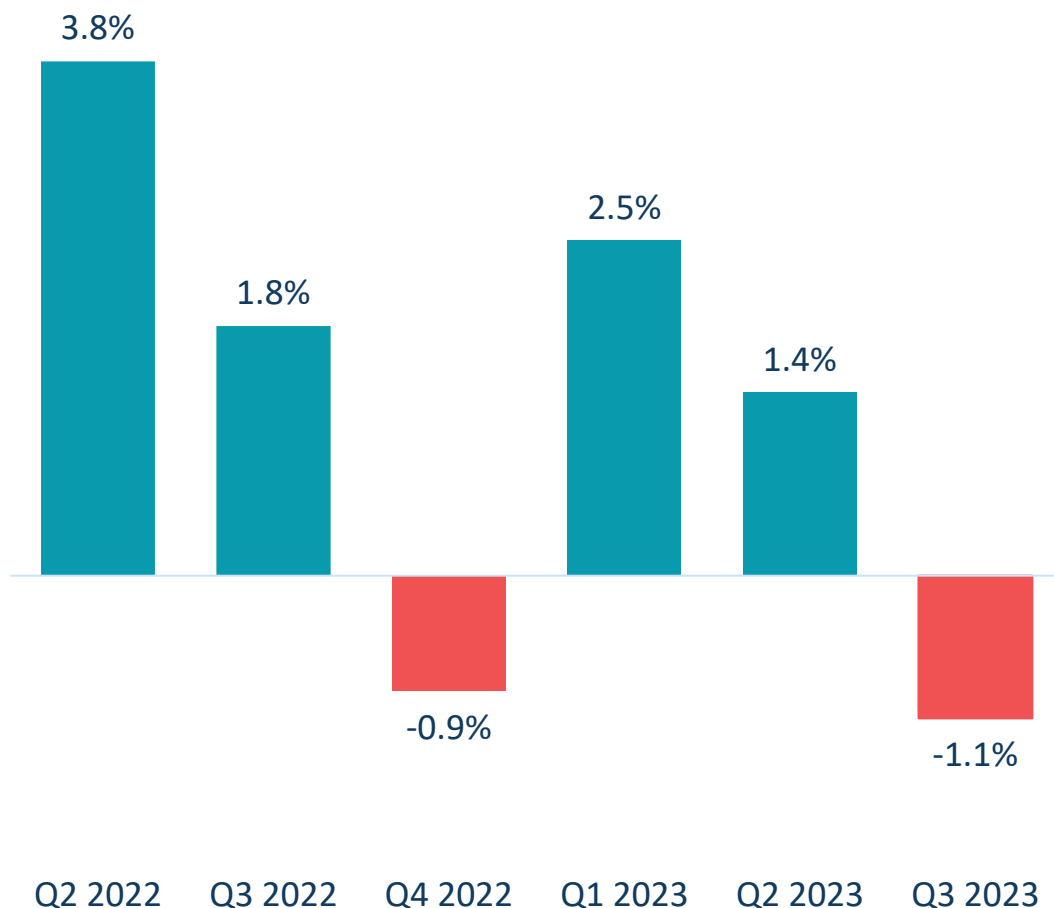
Global estimated & forecasted GDP growth (annual % change)



f = forecast

Source: IMF WEO, October 2023, retrieved on December 1, 2023.

Real Canadian GDP growth (quarterly % change, annualized)



The Canadian economy pulled back 1.1% (annualized) in Q3, following an upwardly revised 1.4% gain in Q2. Goods and services export volumes declined 5.1%, larger than the 0.6% decline in import volumes; as a result, net trade was the largest contributor to the GDP contraction in Q3. Investment in non-residential structures, machinery and equipment declined 10.1%, representing the second largest contributor to the Q3 contraction. Meanwhile, household consumption was essentially unchanged for the second quarter in a row.

Government spending increased 7.3% in Q3, and residential investment grew 8.3%, the first quarterly growth in six quarters, positively contributing to overall economic growth.

The contraction in economic growth was more pronounced on a per capita basis, given the rapid rise in population in recent quarters. Population growth played a part in labour force growth (+0.7%), which outpaced employment growth (+0.4%) in Q3. As a result, the unemployment rate increased from 5.2% in Q2 to 5.5% in Q3. Furthermore, the unemployment rate increased to 5.8% in November, reflecting the softening of the Canadian economy and pressures from tighter monetary policy.

However, Canada avoided the technical definition of a recession, two quarters of negative growth, since Q2's growth was revised to a 1.4% gain from the previously estimated 0.2% decline. The upward revision was partially supported by better than previously estimated business and inventory investment. As well, the upward revision to exports was higher than imports, causing international trade to switch from negative to positive contribution.

GDP BY INDUSTRY REMAINED RELATIVELY CONSTANT FOR THE SECOND QUARTER IN A ROW

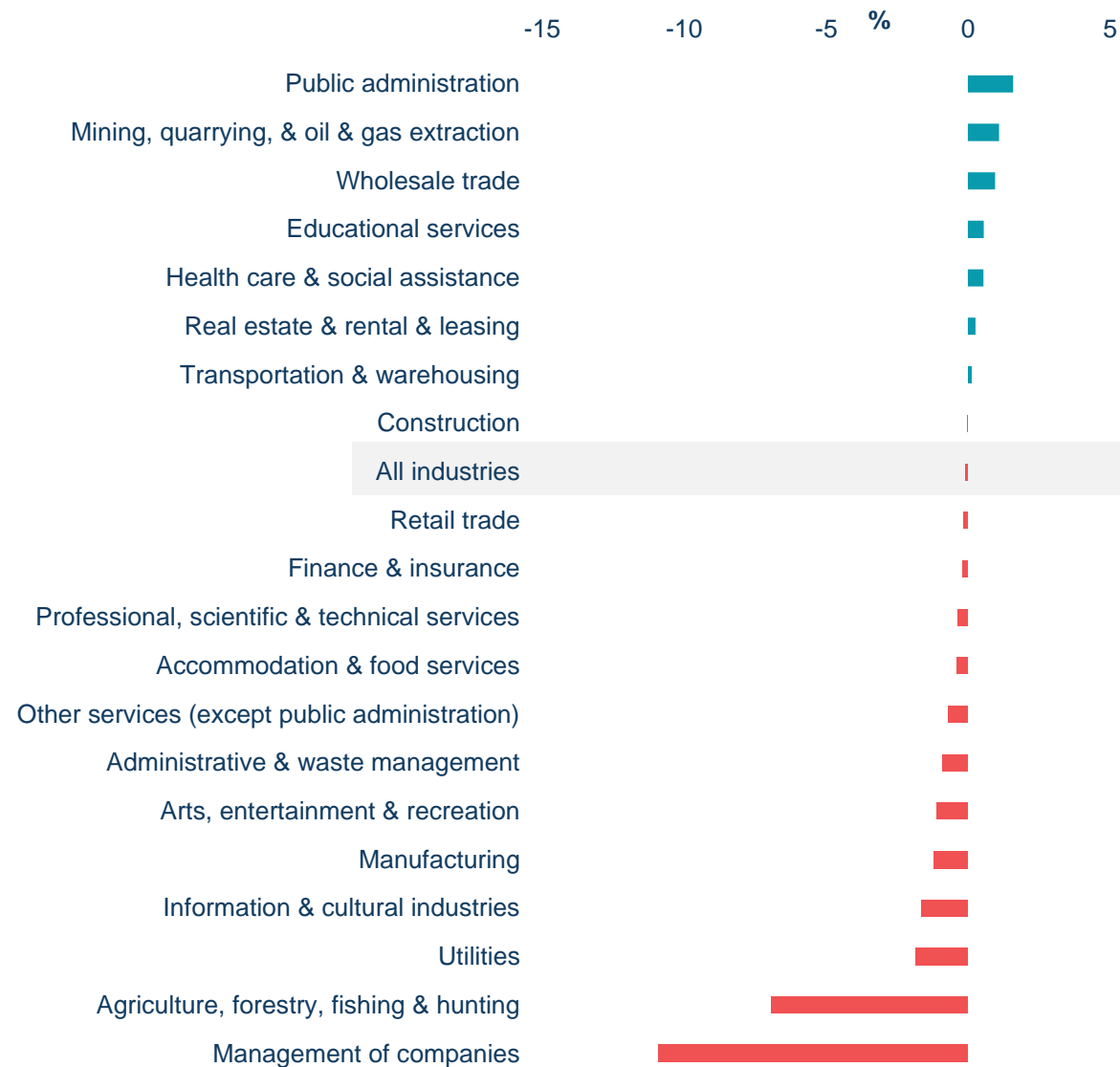
Real GDP by industry was essentially unchanged for the second quarter in a row as goods producing industries declined by 0.9%, while services producing industries grew 0.2% in Q3. This positive growth in services producing industries is the ninth consecutive one on a quarterly basis.

Due to the large increase in government spending, public administration (+1.9%) posted the fastest growth rate, partially supported by the rebound in activity following the federal government strike in Q2. This was followed in second place by mining, quarrying, and oil and gas extraction (+1.1%), which rebounded from the effect of forest fires on natural gas extraction in Q2.

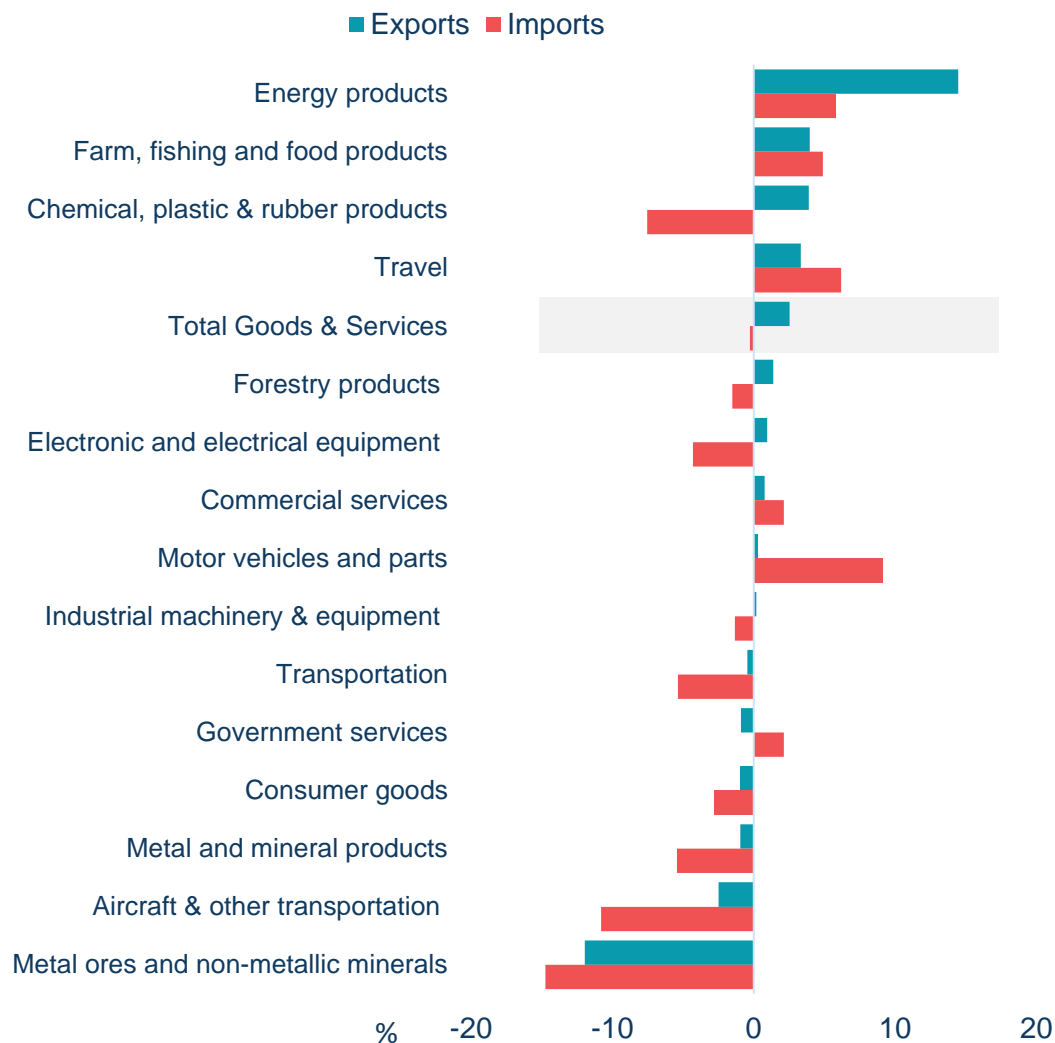
The largest sources of negative growth in Q3 was agriculture, forestry, fishing, and hunting (-6.9%). This is the sector's fourth consecutive quarterly decline due in large part to weaker crop production resulting from drought conditions.

*Note: While management of companies posted a larger decline in percentage term, its small size means it did not detract from growth as much as agriculture, forestry, fishing & hunting.

Canada's GDP at basic prices by industry for Q3 (Quarterly % change)



Canada's international trade by product (Q3 2023, quarterly % change)



Sources: Statistics Canada Table 36-10-0019-01 & Table 36-10-0021-01.
Balance of payments basis, seasonally adjusted. Retrieved on November 30, 2023

EXPORT GROWTH WAS DRIVEN BY ENERGY PRICES WHILE THE DECLINE IN IMPORTS WAS WIDESPREAD

Canadian goods and services exports grew 2.5% in Q3, the first quarterly growth after four quarters of declines. Goods exports increased by 2.9%, while services exports expanded by 1.3%. Energy prices drove goods export gains, as energy product exports increased 14.5% to \$44.5 billion. Overall, 4 of 10 goods export categories witnessed declines, with metal ores and non-metallic minerals (-12.0%) leading the contraction. For services, 2 of 4 export categories witnessed growth, with travel services (+3.3%) leading the way, posting their 10th consecutive quarterly growth.

Canadian imports of goods and services declined 0.3% in Q3, with goods declining by 0.8% and services growing by 1.8%. The goods imports decline was widespread, with 8 of 10 goods import categories contracting. A large increase in imports of motor vehicles and parts (+9.2%) partially offset declines in chemical products (-7.5%), consumer goods (-2.8%), and metal and non-metallic mineral products (-5.4%). On the services side, all service sub-categories (travel, commercial, government) witnessed growth, except for imports of transportation services.

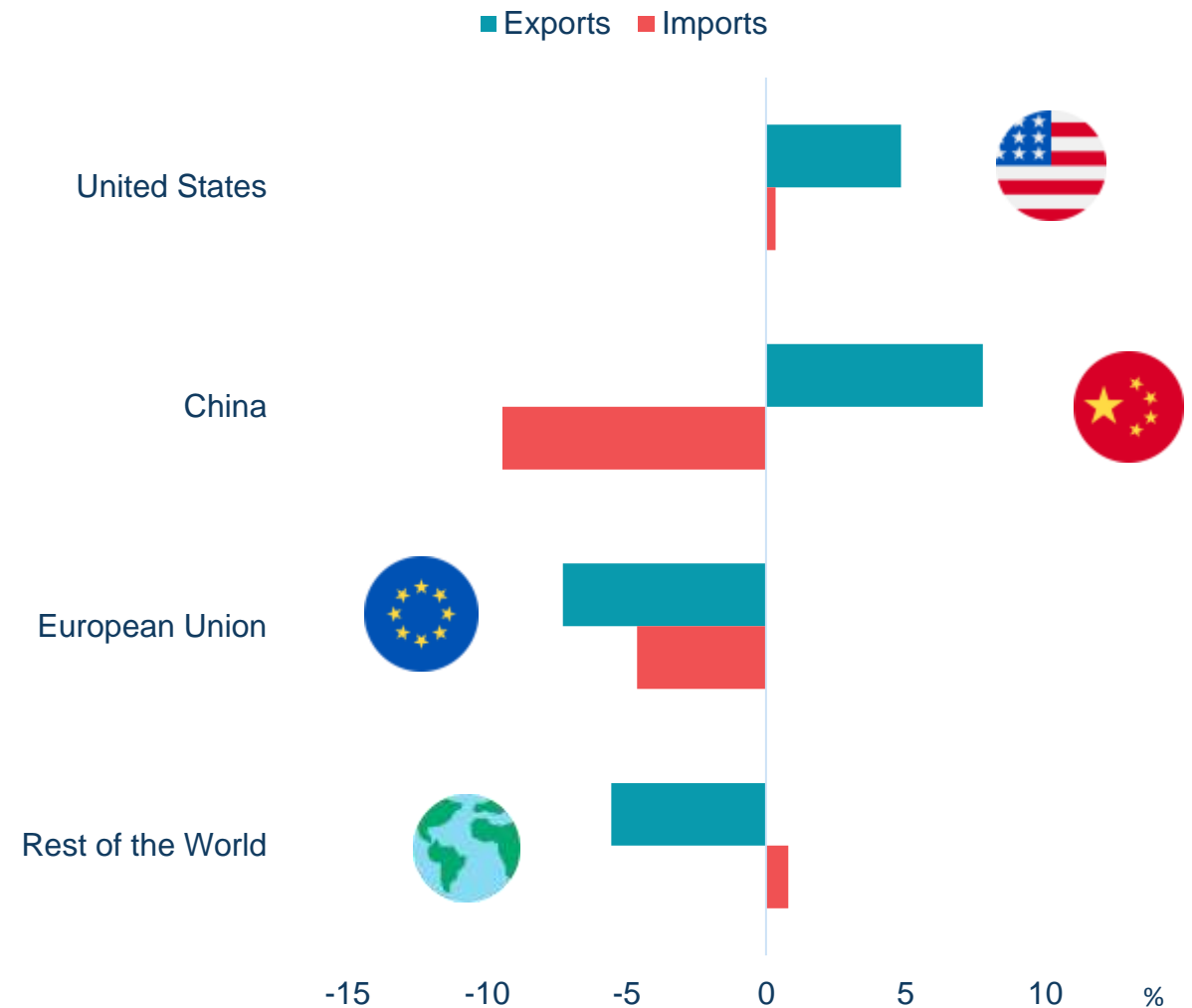
STRONG GOODS EXPORT GROWTH TO THE U.S. AND CHINA

Goods exports to the U.S. (+4.8%) and China (+7.8%) posted strong growth in Q3, supported by robust economic growth in these economies. Meanwhile, Canadian exports to the European Union (-7.3%) and the Rest of the World (-5.5%) declined, as economic growth in Canada's main export destinations in these regions was weak.

With goods exports (+4.8%) to the U.S. outpacing goods imports (+0.3%), Canada's goods surplus with the U.S. increased by \$6.6 billion to reach \$30.0 billion in Q3.

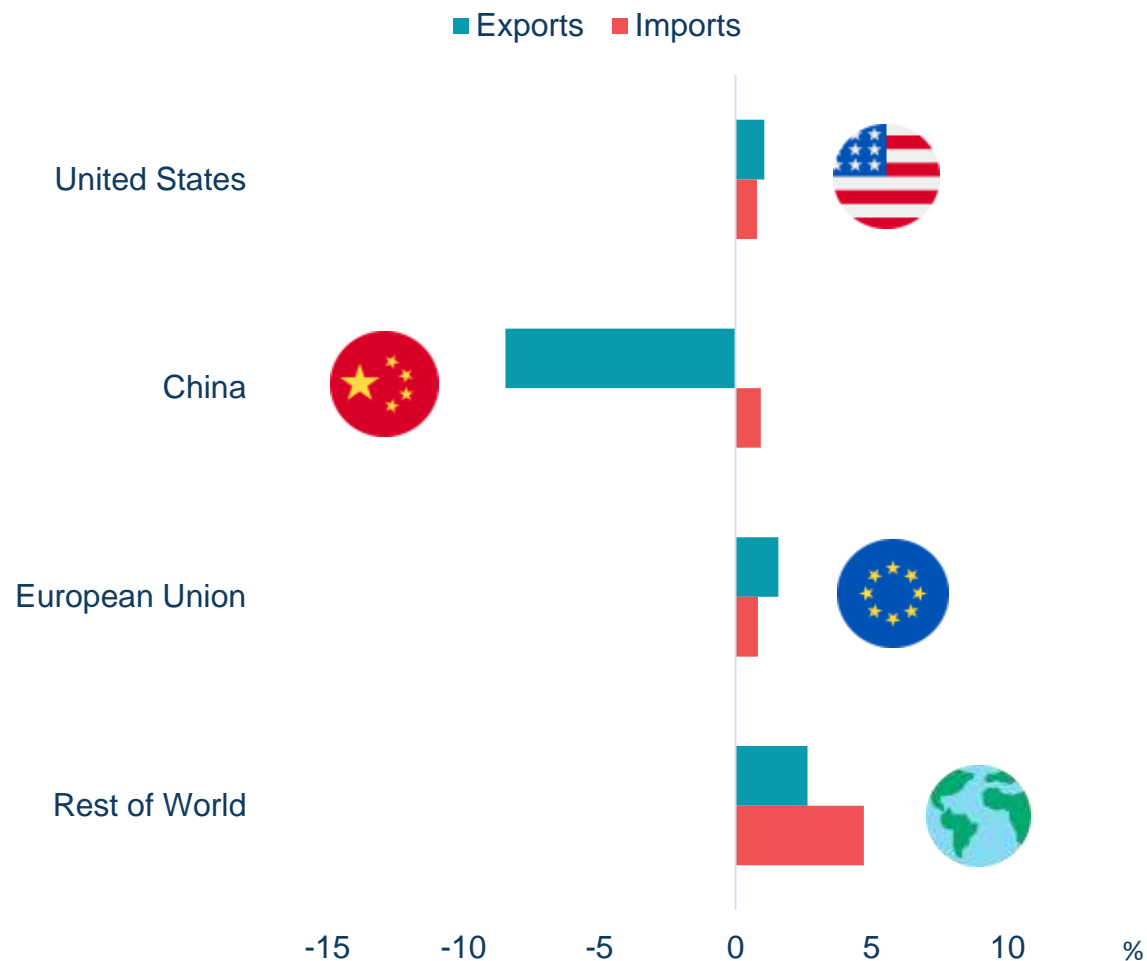
Strong goods exports (+7.8%) to China combined with a decline in imports (-9.5%) led to a smaller trade deficit with China, which in turn helped narrow the trade deficit with countries other than the U.S. Another factor that helped narrow this trade deficit is the switch from trade deficit to trade surplus with the United Kingdom.

Canada's goods trade, by major trading partner (Q3 2023, quarterly % change)



Source: Statistics Canada Table 36-10-0023-01, balance of payments basis, seasonally adjusted. European Union does not include the United Kingdom.

Canada's services trade, by major trading partner (Q3 2023, quarterly % change)



Source: Statistics Canada Table 12-10-0157-01, balance of payments basis, seasonally adjusted. European Union does not include the United Kingdom.

CANADA'S SERVICES TRADE DEFICIT WIDENED IN Q3

Services exports to the U.S. increased 1.1% in Q3, the sixth consecutive quarterly increase. At the same time, services imports from the U.S. only increased 0.8%. As a result, the services trade deficit with the U.S. narrowed slightly.

Services exports to countries other than the U.S. grew 1.5% in Q3, despite a notable decline in exports to China (-8.5%). Services imports from countries other than the U.S. outpaced exports, growing by +3.4%. A jump in imports from Japan (+30.0%) supported this increase. Overall, the services trade surplus with countries other than the U.S. declined by \$376 million to \$1.2 billion in Q3.

Growth in the number of Canadians travelling abroad (+10.7%) outpaced growth in the number of visitors entering Canada (+6.0%) in Q3. Growth in the number of visitors entering Canada was driven by U.S. residents (+7.9%), while visitors from other countries declined 0.4%. Growth in the number of Canadian visitors going abroad was more even, with 10.7% more visitors to the U.S. and 10.8% more visitors to other countries.

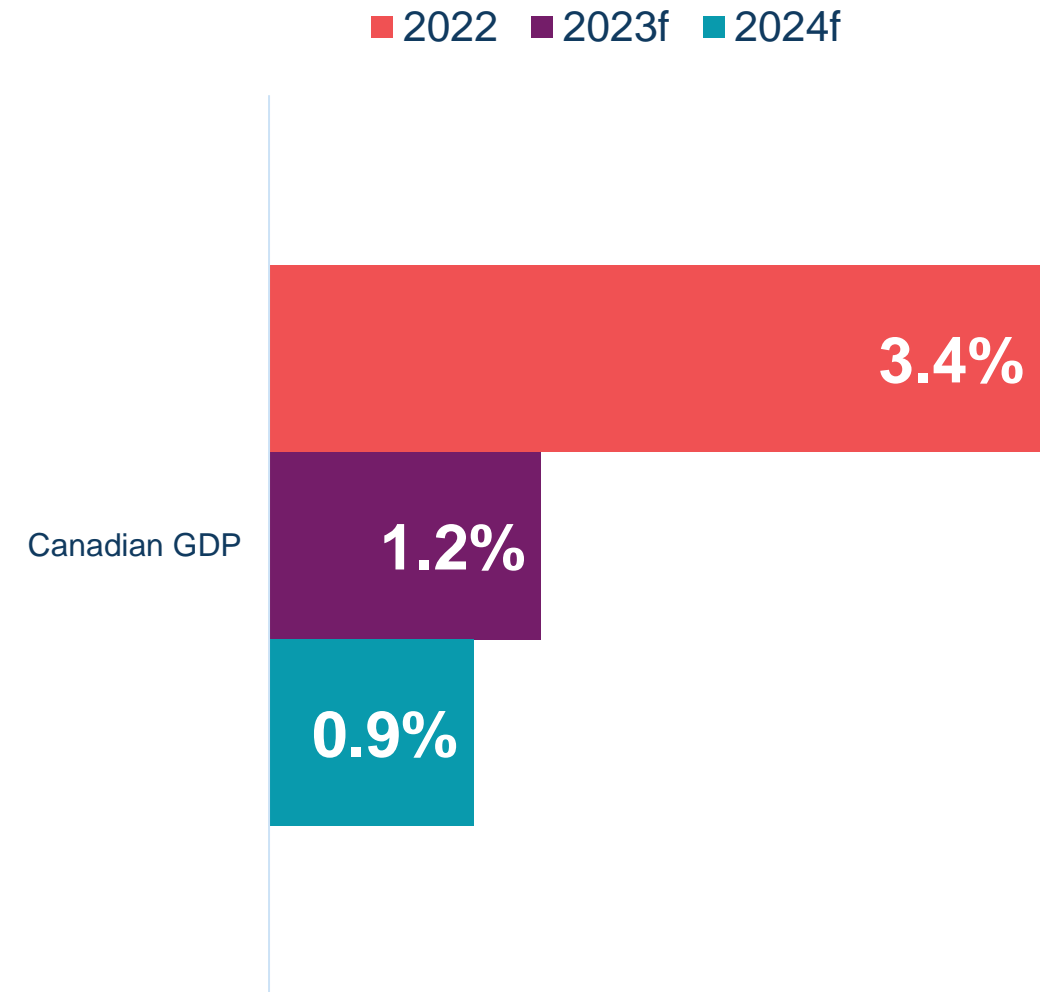
CANADA'S ECONOMIC GROWTH IS EXPECTED TO SLOW GOING FORWARD

According to the Bank of Canada's October 2023 Monetary Policy Report, economic growth is expected to slow to 1.2% in 2023 and 0.9% in 2024.

Inflation has declined from its peak of 8.1% in June 2022 to fluctuate between 2.8% and 4.0% in recent months. The Bank of Canada expects inflation to fall to around 2.5% in the second half of 2024, as past interest rate increases continue to gradually reduce price pressures.

In the short term, demand in the Canadian economy is expected to be weak as past interest rate increases and tighter global financial conditions continue to weigh on consumption and business investment. In addition, slowing foreign demand is anticipated to dampen export volume growth in the short term. On the other hand, with slowing demand and increases in supply, various indicators suggest that the Canadian economy is approaching balance and is expected to move into excess supply in the short term. The move into excess supply is expected to further moderate price inflation.

Canadian forecasted GDP growth (annual % change)



f = forecast

Source: Bank of Canada, Monetary Policy Report, October 2023.

Table 1: Canadian trade by industry sector
(\$ millions)

	Exports			Imports		
	Q3 – 2023	Q/Q %	Y/Y %	Q3 – 2023	Q/Q %	Y/Y %
Goods	192,346	2.9	-2.7	191,526	-0.8	-2.2
Resource products	110,874	5.4	-12.1	60,301	-3.1	-10.8
Energy products	44,595	14.5	-19.9	10,955	5.8	-16.6
Non-resource products	76,318	-0.3	14.9	124,008	0.1	2.3
Industrial machinery & equipment	12,828	0.2	9.6	21,921	-1.3	1.4
Electronic machinery & equipment	8,354	1.0	7.2	20,973	-4.3	-5.0
Motor vehicles and parts	26,151	0.3	28.5	38,318	9.2	22.0
Aircraft & other transportation equipment	7,455	-2.5	19.2	6,435	-10.8	3.2
Consumer goods	21,530	-0.9	5.9	36,361	-2.8	-8.8
Services	49,144	1.3	10.7	52,849	1.8	7.4
Travel	12,046	3.3	20.7	13,292	6.2	20.7
Transportation	4,865	-0.5	-1.6	8,329	-5.4	-10.8
Commercial	31,788	0.8	9.5	30,749	2.1	8.2
Government	445	-0.9	4.5	479	2.1	6.4
Total Goods and Services	241,490	2.5	-0.2	244,375	-0.3	-0.3

Note: "Q/Q %" is the change from the previous quarter; "Y/Y %" is the change from the same quarter the previous year.
Sources: Statistics Canada Table 36-10-0019-01 & 36-10-0021-01. Balance of payments basis, seasonally adjusted.

Table 2: Canadian goods trade by trading partner

	Exports			Imports		
	Q3 – 2023 (\$ million)	Q/Q %	Y/Y %	Q3 – 2023 (\$ million)	Q/Q %	Y/Y %
United States	151,414	4.8	0.4	121,389	0.3	-0.9
Mexico	2,540	5.1	3.6	7,447	6.5	14.3
European Union	8,266	-7.3	-10.7	18,060	-4.6	0.3
France	1,096	-5.4	7.2	1,548	-1.4	4.3
Germany	1,730	0.3	-19.4	5,351	-3.0	9.5
United Kingdom	3,481	21.2	-27.6	2,512	-21.2	15.3
Indo-Pacific Region	17,341	-2.8	-11.7	25,787	-3.3	-13.0
China	7,418	7.8	0.3	14,018	-9.5	-22.8
Japan	3,615	-10.2	-19.7	4,048	10.9	29.0
Hong Kong SAR	1,697	40.7	-0.9	960	-7.2	-15.6
South Korea	1,481	-25.7	-29.3	2,853	12.9	6.0
India	1,095	-25.4	-8.5	1,387	-3.7	-19.1
Australia	710	-13.7	-17.3	618	-1.1	22.6
Indonesia	441	-10.9	-51.8	406	12.2	-10.4
Singapore	390	-2.7	4.0	484	7.8	24.4
Taiwan	494	-10.3	-17.1	1,013	-8.1	-30.6
Rest of the world	9,304	-11.2	-13.7	16,331	-0.3	-4.0
Total Goods Trade	192,346	2.9	-2.7	191,526	-0.8	-2.2

Notes: The Indo-Pacific region total includes only the 9 markets for which data are available. "Q/Q %" is the change from the previous quarter; "Y/Y %" is the change from the same quarter the previous year.
Source: Statistics Canada, Table 36-10-0023-01. Balance of payments basis, seasonally unadjusted.

Table 3: Canadian service trade by trading partner

	Exports			Imports		
	Q3 – 2023 (\$ million)	Q/Q %	Y/Y %	Q3 – 2023 (\$ million)	Q/Q %	Y/Y %
United States	26,125	1.1	10.3	31,055	0.8	8.0
Mexico	619	-4.0	9.2	968	-12.6	-18.2
European Union	5,412	1.6	16.6	6,533	0.8	14.4
France	1,402	4.1	24.7	965	-5.5	9.8
Germany	1,030	2.8	18.1	990	-2.1	12.5
United Kingdom	2,197	2.7	8.9	2,424	2.0	-4.3
Indo-Pacific Region	6,986	-3.0	14.2	5,731	5.1	0.3
China	1,732	-8.5	12.3	868	0.9	-13.5
Japan	546	-0.9	21.3	1,021	30.7	69.0
Hong Kong SAR	679	0.3	9.9	1,307	-5.0	-19.5
South Korea	410	-0.7	18.5	175	4.2	-1.7
India	2,514	-2.0	15.3	951	9.8	24.5
Australia	602	0.0	19.9	346	1.8	-1.7
Indonesia	59	-9.2	22.9	48	9.1	4.3
Singapore	319	3.2	2.6	679	-3.0	-14.8
Taiwan	125	-3.8	5.0	336	6.0	-3.2
Rest of the world	7,805	5.9	6.2	6,138	8.3	15.2
Total Goods Trade	49,144	1.3	10.7	52,849	1.8	7.4

Notes: The Indo-Pacific region total includes only the 9 markets for which data are available. "Q/Q %" is the change from the previous quarter; "Y/Y %" is the change from the same quarter the previous year.
Source: Statistics Canada, Table 12-10-0157-01. Balance of payments basis, seasonally unadjusted.