

# Import Trends Reinforce Rate-Hike Leanings

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Along with the positive turn in housing, the recent strength in imports suggests a healthy comeback in consumer spending and an economic recovery that could soon be strong enough to necessitate measured rate hikes later this year.

December's trade numbers continued to show solid growth in imports, as they have since October. This strength, coupled with last week's surprisingly positive housing news, suggests that the Canadian consumer is in good shape. Continued global growth and the slow healing of the manufacturing sector completes the picture of an economy that can absorb a series of measured rate hikes. However, with export-driven manufacturing still ailing, we do not expect the Bank of Canada to begin raising official rates until after its meeting in June.

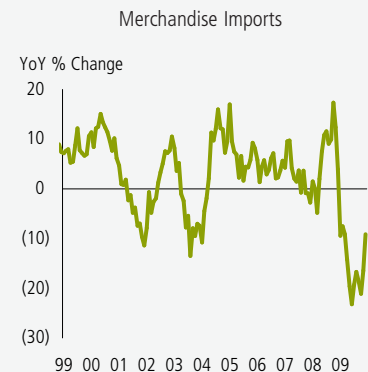
On a year-over-year basis, merchandise imports are now down only 9.1% from December 2008 levels (**Display 1**). Given that the sharpest decline in Canadian imports occurred in the first quarter of 2009, we believe that comparisons for this demand component are almost certain to begin improving in the current quarter. Month-to-month gains are even more encouraging, with imports rising 1.8% in December after growing 3.6% in November.

The composition of the December import gains underscores the Canadian consumers' healthy condition. Automotive products climbed a sharp 6% for the month, after advancing 9% in November. This result brings the category up 9.6% on a year-over-year basis, an especially impressive performance considering that these imports plunged more than 30% in both the first and second quarters of 2009 and dropped nearly 20% in the third quarter (**Display 2**).

Imports of other consumer goods also scored strong monthly gains, rising 3.4% in December following an increase of 0.3% in November. This was the first time that imports in this category had risen for two consecutive months since the beginning of 2009.

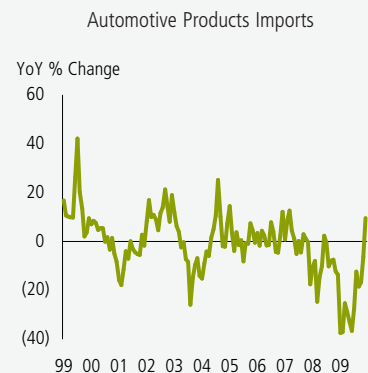
Meanwhile, imports of nonconsumer goods rebounded, suggesting that the rest of the economy is also slowly getting back on its feet. Industrial goods and materials imports climbed 2.9% from November, and gained 3.3% for the fourth quarter. However, machinery and equipment

Display 1  
Imports Post Strong Recovery



Source: Haver Analytics and Statistics Canada

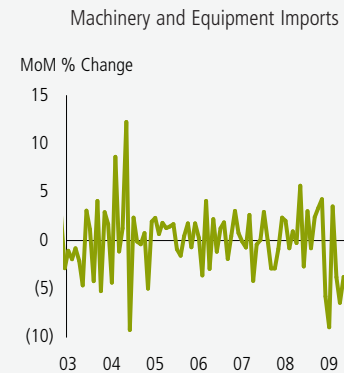
Display 2  
Auto Products Imports Rise Even Faster



Source: Haver Analytics and Statistics Canada

imports fell 2.4% for December (**Display 3**), and dropped slightly more than 4% for the fourth quarter. Those results are consistent with other evidence that the manufacturing sector remains a soft spot in the domestic-demand-led Canadian economic recovery.

Display 3  
Manufacturing Sector Still Struggling



Source: Haver Analytics and Statistics Canada

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