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Economics

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## Canadian trade (June): Further into the red

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| Merchandise trade, in million ($) | 22:Q4[1] | 23Q1[1] | 23:Q2[1] | Apr | May | Jun |
|---|---|---|---|---|---|---|
| Merch. trade balance—Annual rate | 8,312 | 3,399 | -21,373 | 12,824 | -32,161 | -44,783 |
| • Monthly rate | - | - | - | 1,069 | -2,680 | -3,732 |

| Merchandise trade (period/period % chg) | 22:Q4[2] | 23:Q1[1] | 23:Q2[1] | Apr | May | Jun |
|---|---|---|---|---|---|---|
| Exports | -6.4 | -2.3 | -13.4 | 1.4 | -3.0 | -2.2 |
| Imports | -5.8 | 0.2 | -1.4 | -0.3 | 3.0 | -0.5 |
| Export volumes (chain Fisher) | -0.1 | 12.1 | -1.5 | 1.9 | -1.7 | -1.2 |
| Import volumes (chain Fisher) | -12.8 | -0.5 | 3.5 | 0.7 | 4.1 | 1.2 |

Source: Statistics Canada

- After swinging sharply into deficit territory in the prior month, Canada's goods trade balance fell further into the red in June. The $3.7bn deficit was wider than a downwardly revised $2.7bn in the prior month, with exports falling by more than imports. Indeed, export volumes were down for a second consecutive month, and were lower over Q2 as a whole relative to the prior quarter, suggesting that a previously strong contributor to growth towards the end of 2022 and into this year is now fading. With the port strike in BC impacting next month's July data, a near-term rebound seems unlikely.
- The 2.2% decline in exports in June was due to both lower prices and volumes, as in inflation-adjusted terms outbound trade was down 1.2% on the month. The decline in exports was partly due to the often volatile trade in metallic and non-metallic mineral products. However, there were also other areas of weakness, including machinery.
- The 0.5% decline in imports was largely driven by lower prices, as import volumes were up by just over 1%, albeit led by the often volatile metallic & non-metallic mineral component. The increase in overall imports was narrowly based, with seven of the eleven sectors covered actually seeing declines on the month.
- Separately released data showed that Canada's deficit in services trade was little changed in June, at $1.0bn. As a result, the overall trade deficit widened from $3.8bn in the prior month to $4.7bn.
- For Q2 as a whole, real goods exports fell at a 1.5% annualized pace, while imports rose by 3.5%, suggesting that net trade turned into a drag on overall GDP during the quarter. The decline in exports over the quarter as a whole was led by farm, fishing & food products, while the rise in imports reflected gains in machinery and autos.
- Next month's July data will see disruptions in trade volumes linked to the port strike in BC, which started at the beginning of the month, and flooding in Nova Scotia which hit towards the end of July and impacted rail service towards the port of Halifax. Regarding the port strike, Statistics Canada noted that in 2022, just over 9% of Canadian exports by value were sent via ports in BC, although more than half of that was resources which are expected to have

[1] Annualized.

[2] Annualized.

been less impacted by the strike. On the import side, BC ports accounted for around 5% of trade in 2022, mainly consumer goods.

## Implications & actions

**Re: Economic forecast** — After being a surprisingly strong positive contributor to growth in the second half of 2022 and the first quarter of this year, net trade appears to have turned into a slight drag on the economy in Q2. Export volumes for agricultural products appear to be normalising again, after having risen sharply following the outbreak of the war in Ukraine last year, while the recovery in auto trade has slipped into a lower gear. This will leave overall growth increasingly reliant on domestic demand, and in particular consumer spending, the resilience of which appears to be slowly cracking under the pressure of higher interest rates.

**Re: Markets** — The Canadian dollar was already down sharply on the day, and the weaker than expected trade data didn't impact the currency any further.



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