

Economics

ECONOMIC FLASH!

economics.cibccm.com

August 8, 2023

Canadian trade (June): Further into the red

by **Andrew Grantham** andrew.grantham@cibc.com

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.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2023 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC