

## Economics

# ECONOMIC FLASH!

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## Canadian trade (May): A big swing

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Merchandise trade, in million (\$)	22:Q3 <sup>1</sup>	22:Q4 <sup>1</sup>	23:Q1 <sup>1</sup>	Mar	Apr	May
Merch. trade balance—Annual rate	9,686	8,312	3,998	533	10,729	-41,268
• Monthly rate	-	-	-	44	894	-3,439

  

Merchandise trade (period/period % chg)	22:Q3 <sup>2</sup>	22:Q4 <sup>1</sup>	23:Q1 <sup>1</sup>	Mar	Apr	May
Exports	-10.2	-6.4	-1.9	-1.4	1.3	-3.8
Imports	3.3	-5.8	0.3	-2.1	0.0	3.0
Export volumes (chain Fisher)	11.6	-0.1	12.7	-0.1	2.1	-2.6
Import volumes (chain Fisher)	-3.8	-12.8	-0.5	-3.6	0.8	3.8

Source: Statistics Canada

- Canada's goods trade balance swung sharply and unexpectedly into deficit territory in May, suggesting that net trade may not be the positive contributor to Q2 growth that was previously expected. The \$3.44bn deficit was the largest since October 2020 and followed a downwardly revised \$0.9bn surplus in the prior month. The large swing relative to the prior month reflected both a decline in exports (-3.8%) and a rise in imports (+3.0%).
- The decline in exports partially reflected lower prices, although in volume terms there was still a 2.6% drop on the month. Energy and farm, fishing & intermediate food products led the decline. In inflation-adjusted terms energy exports were the lowest since June 2022 and agricultural exports were the weakest since last September. Statistics Canada noted that demand for Canadian grains has slowed amid improving global supply chains.
- The increase in imports was led by metallic & non-metallic mineral products and autos. Import volumes of motor vehicles & parts are up more than 4% on a year-over-year basis, reflecting an easing of supply chains. The sharp increase in metallic & non-metallic mineral imports was led by large shipments of unwrought silver from the UK, and shipments in this often-volatile area should normalise in June.
- Canada's trade surplus with the US narrowed from \$8.7bn in April to \$6.7bn in May, which was the lowest since May 2021. The trade deficit with the rest of the world widened to \$10.2bn in May, from \$7.8bn in the prior month. The large deficit in trade with the rest of the world suggests that the strike action at BC ports that started in early July will likely have a bigger impact on imports than exports, although both will and are being affected.
- The downward revision to April's trade surplus (now +\$0.9bn from +\$1.9bn first reported) was mainly the result of lower exports than had first been reported.
- The trade deficit in services was little changed in May, which meant that the Canada's overall trade deficit swelled from \$316mn in April to \$4.6bn in the latest month.

<sup>1</sup> Annualized.

<sup>2</sup> Annualized.

## Implications & actions

**Re: Economic forecast** — Today's large swing in the trade balance suggests that net trade won't be the big positive contributor to GDP in Q2 that seemed likely prior to today's release. That doesn't necessarily guarantee that the flash estimate of 0.4% growth for monthly GDP in May is an overestimation, because inventory accumulation could be stronger than previously assumed, although today's data does heighten downside risks.

**Re: Markets** — Bond yields had risen earlier in the morning due to strong US employment data, but the Canadian dollar weakened following the unexpected trade deficit for May.

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